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## DELTA REPORT

### 10-K

BHB - BAR HARBOR BANKSHARES

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 3912

█ CHANGES 522

█ DELETIONS 1676

█ ADDITIONS 1714

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, **2022 2023**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-13349



Graphic

**BAR HARBOR BANKSHARES**

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of incorporation or organization)

**01-0393663**

(I.R.S. Employer Identification No.)

PO Box 400

82 Main Street, Bar Harbor, ME

(Address of principal executive offices)

**04609-0400**

(Zip Code)

Registrant's telephone number, including area code: **(207) 669-6784**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$2.00 per share	BHB	NYSE American

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer," "smaller reporting company", or "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

The aggregate market value of the common stock held by non-affiliates of Bar Harbor Bankshares was ~~\$381,396,767~~ \$385,509,568 based on the closing sale price of the common stock on the NYSE American on ~~June 30, 2022~~ June 30, 2023, the last trading day of the registrant's most recently completed second quarter.

The Registrant had ~~15,124,451~~ 15,185,021 shares of common stock, par value \$2.00 per share, outstanding as of ~~March 10, 2023~~ March 7, 2024.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the ~~2023~~ 2024 Annual Meeting of Shareholders, to be filed within 120 days after ~~December 31, 2022~~ December 31, 2023 are incorporated by reference into Part III this Annual Report on Form 10-K.

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## BAR HARBOR BANKSHARES AND SUBSIDIARIES

### FORM 10-K

#### INDEX

	Page
<b>PART I.</b>	
<a href="#">ITEM 1. BUSINESS</a>	3
<a href="#">ITEM 1A. RISK FACTORS</a>	22
<a href="#">ITEM 1B. UNRESOLVED STAFF COMMENTS</a>	32
<a href="#">ITEM 1C. CYBERSECURITY</a>	32
<a href="#">ITEM 2. PROPERTIES</a>	31 34
<a href="#">ITEM 3. LEGAL PROCEEDINGS</a>	31 34
<a href="#">ITEM 4. MINE SAFETY DISCLOSURES</a>	34
<b>PART II.</b>	
<a href="#">ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES SECURITIES</a>	32 35
<a href="#">ITEM 6. [RESERVED]</a>	34 37
<a href="#">ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	34 37
<a href="#">ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	47 50
<a href="#">ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA DATA</a>	49 52
<a href="#">ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</a>	117
<a href="#">ITEM 9A. CONTROLS AND PROCEDURES</a>	118
<a href="#">ITEM 9B. OTHER INFORMATION</a>	118
<a href="#">ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS</a>	119
<b>PART III.</b>	
<a href="#">ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE</a>	120 121
<a href="#">ITEM 11. EXECUTIVE COMPENSATION</a>	120 121
<a href="#">ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</a>	120 121
<a href="#">ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</a>	120 121
<a href="#">ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</a>	120 121
<b>PART IV.</b>	
<a href="#">ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</a>	120 121
<a href="#">ITEM 16. FORM 10-K SUMMARY</a>	124

## SIGNATURES

The Company conducts business operations principally through Bar Harbor Bank & Trust, which may be referred to as the Bank and which is a subsidiary of Bar Harbor Bankshares. Unless the context requires otherwise, references in this Annual Report on Form 10-K to "our company, Company, "our," "us," "we" and similar terms refer to Bar Harbor Bankshares and its subsidiaries, including the Bank, collectively.

## Table of Contents

### **PART I**

#### **ITEM 1. BUSINESS BUSINESS.**

##### **FORWARD-LOOKING STATEMENTS**

###### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Annual Report on Form 10-K (the "Form 10-K" or "Annual Report") that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-K the words "believe," "anticipate," "expect," "may," "will," "assume," "should," "predict," "could," "would," "intend," "targets," "estimates," "projects," "plans," and "potential," and other similar words and expressions of the future, are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking, including statements about our future financial and operating results and plans, objectives, and intentions. All forward-looking statements are subject to risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of our company to differ materially from any results, performance, or achievements expressed or implied by such forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements, including, but not limited to:

- deterioration in the financial performance and/or condition of borrowers of the Bank, including as a result of the negative impact of inflationary pressures on our customers and their businesses resulting in significant increases in credit losses and provisions for those losses;
- the possibility that our asset quality could decline or that we experience greater loan losses than anticipated;
- increased levels of other real estate owned, primarily as a result of foreclosures;
- the impact of liquidity needs on our results of operations and financial condition;
- competition from financial institutions and other financial service providers;
- the effect of interest rate increases on the cost of deposits;
- unanticipated weakness in loan demand or loan pricing;
- adverse conditions in the national or local economies including in our markets throughout Northern New England;
- changes in consumer spending, borrowing and saving habits;
- the emergence and effects related to a future pandemic, epidemic or outbreak of new outbreaks of COVID-19, an infectious disease, including actions taken by governmental officials to curb the spread of the virus, such an infectious disease, and the resulting impact on general economic and financial market conditions and on the Company's and our customers' business, results of operations, asset quality and financial condition;
- the effects of civil unrest, international hostilities or other geopolitical events, including the war in Ukraine, Ukraine and ongoing hostilities in the Middle East;
- inflation, interest rate, market, and monetary fluctuations;
- lack of strategic growth opportunities or our failure to execute on available opportunities;
- the ability to grow and retain low-cost core deposits and retain large, uninsured deposits;
- our ability to effectively manage problem credits;
- our ability to successfully implement efficiency initiatives on time and with the results projected;

- our ability to successfully develop and market new products and technology;
- the impact of negative developments in the financial industry and United States and global capital and credit markets;
- our ability to retain executive officers and key employees and their customer and community relationships;
- our ability to adapt to technological changes;
- risks associated with litigation, including reputational changes and financial risks and the applicability of insurance coverage;
- our ability to implement new technology effectively;
- the vulnerability of the Bank's computer and information technology systems and networks, and the systems and networks of third parties with whom the Company or the Bank contract, to unauthorized access, computer viruses,

3

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[Table of Contents](#)

phishing schemes, spam attacks, human error, natural disasters, power loss, and other security breaches and interruptions;

3

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[Table of Contents](#)

- changes in the reliability of our vendors, internal control systems or information systems;
- ongoing competition in the labor markets and increased employee turnover;
- the potential impact of climate change;
- the impact of pandemics, epidemics or any other health-related crisis;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;
- changes in state and federal laws, rules, regulations, or policies applicable to banks or bank or financial holding companies, including regulatory or legislative developments;
- the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board");
- adverse impacts (including costs, fines, reputational harm, or other negative effects) from and risks associated with current or future litigation, regulatory examinations, or other legal and/or regulatory actions; and
- general competitive, economic, political, and market conditions, including economic conditions in the local markets where we operate.

Other factors not identified above, including those described [in the Annual Report](#) under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with considering any forward-looking statements that may be made by us. We undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

## GENERAL

**Bar Harbor Bankshares** (the "Company," "we," "our" or "us" or similar terms) is the parent company of Bar Harbor Bank & Trust (the "Bank"), which is the only community bank headquartered in Northern New England with branches in Maine, New Hampshire, and Vermont. The Bank is a regional community bank that thinks differently about banking. The Bank provides the technology offerings and capabilities of larger banks, accompanied by access to local decision makers who are acutely focused on their local markets. Having recently celebrated the 135th 137th anniversary of the Bank's founding, we remain focused on helping our customers achieve their goals as the key to the Bank's success. With over 500 450 dedicated professionals and more than 50 locations, we are committed to servicing and building enduring relationships by providing a higher standard of banking. We offer a variety of financial products and services designed around our customers in order to serve their banking and financial needs. Through these efforts, we continue to be a relationship-focused community bank, maintaining our credit

quality and serving businesses, entrepreneurs, and individuals within our footprint. Our corporate goal is to be one of the **top most consistently high** performing **community** banks in New England, and our business model is centered on the following:

- Employee and customer experience is the foundation of superior performance, which leads to significant financial benefit to shareholders
- Geography, heritage, and performance are key while remaining true to a community-focused culture
- Commitment to risk management while balancing growth and earnings
- Service and sales driven culture with a focus on core business growth
- Fee income is fundamental to our profitability through trust and treasury management services, customer derivatives, and secondary market mortgage sales
- Investment in processes, products, technology, training, leadership, and infrastructure
- Expansion of our brand and business to deepen market presence
- Opportunity and growth for existing employees while adding catalyst recruits across all levels

#### [Table of Contents](#)

Shown below is a profile and geographical footprint of the Bank as of **December 31, 2022** December 31, 2023:



Graphic

We serve affluent and growing markets in Maine, New Hampshire, and Vermont with more than **50.49** thousand, 48 thousand, and 24 thousand customers, respectively in those states. Within these markets, tourism, agriculture, and fishing industries remain strong and continue to drive economic activity. These core markets have also maintained their strength through diversification into various service industries.

#### **Maine**

We have 22 full-service branches in operation and two wealth management offices principally located in the regions of downeast, midcoast, and central Maine, which are generally characterized as rural areas. We also have a commercial loan production office in Portland, Maine. In Maine, we consider our primary market areas to be Hancock, Penobscot, Washington, Kennebec, Knox, and Sagadahoc counties. The economies in these counties are based primarily on tourism, healthcare, fishing and lobstering, agriculture, state government, and small local businesses. They are also supported by a large contingent of retirees.

#### **New Hampshire**

We have 21 full-service branches in operation and five wealth management offices in New Hampshire located in the Lake Sunapee, Upper Valley, and Merrimack Valley regions. There are several distinct markets within each of these regions. The towns or cities of Nashua, Manchester, and Concord are considered part of the Merrimack Valley. Nashua, New Hampshire is a regional commercial, entertainment, and dining destination. With its border to Massachusetts, it also enjoys a vibrant high-tech industry and a robust retail industry due in part to New Hampshire's absence of a sales tax. The **upper valley** **Upper Valley** region of New Hampshire includes the towns of Lebanon and Hanover, which are home to Dartmouth-Hitchcock Medical Center and Dartmouth College, respectively. The Lake Sunapee market is a popular year-

round recreation and resort area that includes both Lake Sunapee and Mount Sunapee and includes the towns of Claremont, New London, and Newport.

#### **Vermont**

We have 10 full-service branches in operation in Vermont. The branches are primarily located in central Vermont within the counties of Rutland, Windsor, and Orange. These markets are home to many attractions, including Killington Mountain Okemo Resort, and the city of Rutland. Popular vacation destinations in this region include Woodstock, Brandon, and Ludlow.

#### [Table of Contents](#)

### **SUBSIDIARY ACTIVITIES**

Bar Harbor Bankshares is a legal entity separate and distinct from its first-tier bank subsidiary, Bar Harbor Bank & Trust, and its second-tier subsidiaries, Bar Harbor Wealth Management ("BHWM") and Cottage Street Corporation.

There are two Connecticut statutory trusts for which all of the common stock is owned. These capital trusts are unconsolidated, and their only material asset is a \$20.6 million trust preferred security related to the junior subordinated debentures reported in Note 7 – Borrowed Funds of the Consolidated Financial Statements.

### **AVAILABLE INFORMATION**

Annual, quarterly, and current reports, proxy statements and other information are required to be filed with the Securities and Exchange Commission or SEC. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements, and information statements, and other information regarding issuers that file electronically with the SEC.

The Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are also available free of charge on our website at [www.barharbor.bank](http://www.barharbor.bank) under the Shareholders Relations link as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

**Our Code of Ethics for Senior Financial Officers, Code of Conduct and Business Ethics, Securities and Insider Trading Policy and the charters of our Board of Directors' audit committee, governance committee, and compensation and human resources committee are also available on our website ([www.barharbor.bank](http://www.barharbor.bank)) and in print free of charge to any shareholder who requests them. Requests should be sent by mail to our corporate secretary at our executive office. We intend to disclose on our website any amendments or waivers to our Code of Ethics for Senior Financial Officers or Code of Conduct and Business Ethics that are required to be disclosed pursuant to Item 5.05 of Form 8-K.**

Investors should note announcements of material information to investors and others are performed using SEC filings, press releases, and postings on our website ([www.barharbor.bank](http://www.barharbor.bank)), including news and announcements regarding financial performance, key personnel, brands, and business strategy. Information posted on the corporate website could be deemed material to investors. Investors are encouraged to review the information posted on these channels. Updates may be made, from time to time, to the list of channels used to communicate information that could be deemed material, and any such change will be posted on [www.barharbor.bank](http://www.barharbor.bank). The information on the website is not, and shall not be deemed to be, a part hereof or incorporated into this or any other filings with the SEC.

### **COMPETITION**

Major competitors in market areas include local independent banks, local branches of large regional and national bank affiliates, thrift institutions, savings and loan institutions, mortgage companies, and credit unions.

We effectively compete with other financial institutions by emphasizing quality customer service, making decisions at the local level, maintaining long-term customer relationships, building customer loyalty, and providing products and services designed to address customers' specific needs. However, no assurance can be provided regarding the ongoing ability to compete effectively with other financial institutions in the future.

No part of the business is materially dependent upon one or a few customers or upon a particular industry segment, the loss of which would have a material adverse impact on our results of operations.

## LENDING ACTIVITIES

### *General*

Loans are originated in four basic portfolio categories, which are discussed below. These portfolios include the categories commercial real estate, commercial and industrial, residential real estate and other consumer loans. Loan interest rates and

6

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### [Table of Contents](#)

other key loan terms are affected principally by our lending policy, asset/liability strategy, loan demand, competition, and the supply of money available for lending purposes. The amount of long-term fixed-rate lending and adjustable-rate **loan products lending** is monitored according to the Bank's interest rate management policy. Loans originated are held for investment except for certain residential mortgages that are underwritten with the intention to be sold in the secondary mortgage market.

6

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### [Table of Contents](#)

### *Loan Portfolio Analysis*

The following table sets forth the year-end composition of the loan portfolio in dollar amounts and as a percentage of the portfolio for the years indicated. Further information about the composition of the loan portfolio is contained in Note 3 – *Loans and Allowance for Credit Losses* of the Consolidated Financial Statements.

(in thousands, except percentages)	2022		2021		2023		2022	
	Amount	% of Total						
Commercial construction	\$ 117,577	4 %	\$ 56,263	2 %	\$ 154,048	5 %	\$ 117,577	4 %
Commercial real estate owner occupied	244,814	8	257,122	12	310,015	10	244,814	8
Commercial real estate non-owner occupied	1,146,674	40	887,092	35	1,144,566	38	1,146,674	40
Tax exempt	42,879	2	41,280	2	43,688	2	42,879	2
Commercial and industrial	297,112	10	307,112	12	310,883	10	297,112	10
Residential real estate	954,968	33	888,263	34	940,334	32	954,968	33
Home equity	90,865	3	86,657	3	87,683	3	90,865	3
Consumer other	7,801	—	8,121	—	7,832	—	7,801	—
Total loans	\$ 2,902,690	100 %	\$ 2,531,910	100 %	\$ 2,999,049	100 %	\$ 2,902,690	100 %

### *Commercial Loan Exposure and Industries*

All commercial loans are assigned Standard Industrial Classification codes, North American Industry Classification System codes, and state and county codes. The following table summarizes the major industries of the commercial loan portfolio as of **December 31, 2022** **December 31, 2023** and **2021**:

(in thousands, except percentages)	2022			2021		
	Loans	Total Exposure	% of Portfolio	Loans	Total Exposure	% of Portfolio
Real Estate and Rental and Leasing	\$ 946,591	\$ 1,212,986	51 %	\$ 707,444	\$ 815,070	46 %
Accommodation and Food Services	334,053	347,023	18	281,122	294,971	18
Health Care and Social Assistance	105,634	145,361	6	99,128	138,008	6
Retail Trade	61,265	79,401	3	58,647	79,109	4
Agriculture, Forestry, Fishing and Hunting	60,815	68,040	3	52,957	61,157	3
Wholesale Trade	55,546	83,696	3	24,179	38,098	2
Educational Services	49,162	61,526	3	52,921	65,524	3
Manufacturing	44,672	66,083	2	50,752	70,742	3
Public Administration	33,769	39,357	2	32,576	35,189	2
Finance and Insurance	33,148	52,551	2	54,462	83,153	4
Construction	29,448	49,450	2	32,451	58,394	2
Arts, Entertainment, and Recreation	29,300	31,898	2	34,122	36,854	2
Transportation and Warehousing	14,087	16,051	1	14,569	17,656	1
All other	51,566	81,045	2	53,539	73,417	4
Total commercial loans	\$ 1,849,056	\$ 2,334,468	100 %	\$ 1,548,869	\$ 1,867,342	100 %

(in thousands, except percentages)	2023			2022		
	Loans	Total Exposure	% of Portfolio	Loans	Total Exposure	% of Portfolio
Real Estate and Rental and Leasing	\$ 1,018,035	\$ 1,196,273	52 %	\$ 946,591	\$ 1,212,986	51 %
Accommodation and Food Services	334,838	347,588	17	334,053	347,023	18
Health Care and Social Assistance	99,601	109,771	5	105,634	145,361	6
Retail Trade	78,036	94,074	4	61,265	79,401	3
Agriculture, Forestry, Fishing and Hunting	55,214	63,052	3	60,815	68,040	3
Wholesale Trade	63,088	110,703	3	55,546	83,696	3
Educational Services	51,512	63,731	3	49,162	61,526	3
Finance and Insurance	59,753	103,444	3	33,148	52,551	2
Manufacturing	44,277	67,221	2	44,672	66,083	2
Arts, Entertainment, and Recreation	30,914	33,441	2	29,300	31,898	2
Construction	23,086	44,518	1	29,448	49,450	2
Public Administration	35,995	40,669	—	33,769	39,357	2
Transportation and Warehousing	14,424	22,139	—	14,087	16,051	1
All other	54,427	79,691	5	51,566	81,045	2
Total commercial loans	\$ 1,963,200	\$ 2,376,315	100 %	\$ 1,849,056	\$ 2,334,468	100 %

Within our non-owner-occupied commercial real estate portfolio (considered "Commercial construction" and "Commercial Real Estate Non-Owner Occupied" above), the top 10 loans represent approximately 13.9% of total commercial outstanding. The average loan size in the CRE segment is approximately \$2.0 million. Delinquencies within the segment were nominal at less than 0.01% as a percentage of the total segment as of December 31, 2023. Maximum loan-to-value ratios at origination are governed by established policy and regulatory guidelines. The weighted average loan-to-value ratio for the top 10 loans within the non-owner occupied segment was 61.54% as of December 31, 2023. The top 10 office loans represent approximately 9% of the total commercial real estate segment exposure inclusive of unfunded commitments and 10% of the outstanding balances. The weighted average loan-to-value for the top ten loans within the office segment is 60.37%. Our total commercial portfolio has a pass rating of 93%, included in the commercial portfolio are office loans of \$245.8 million which have a pass rating of 86%.

### ***Maturity and Sensitivity of the Loan Portfolio***

The following table shows contractual maturities of selected loan categories at December 31, 2022 December 31, 2023. The contractual maturities do not reflect premiums, discounts, deferred costs, or prepayments.

### Problem Assets

There is a preference to work with borrowers to resolve problems rather than proceeding to foreclosure. For commercial loans, this may result in a period of forbearance or restructuring of the loan, which is normally done at current market terms and may not result in a "troubled" loan designation. For residential mortgage loans, the Consumer Financial Protection Bureau ("CFPB") guidelines are followed to attempt a restructuring that will enable owner-occupants to remain in their home. However, if these processes fail to result in a performing loan, foreclosure or other proceedings will be initiated no later than the 120th day of a delinquency, as necessary, to minimize any potential loss. Management reports on delinquent loans and non-performing assets to the Company's Board of Directors **monthly**, **monthly** through the **Board Risk Committee**. Loans are generally removed from accruing status when they reach 90 days delinquent, except for certain loans which are well secured and in the process of collection. Loan collections are managed by a combination of the related business units and the managed assets **group**, which focuses on larger, **riskier collections**, **group**.

### [Table of Contents](#)

The following table presents the problem assets for the years indicated:

(in thousands, except ratios)	2022	2021	2023	2022
Non-accruing loans:				
Commercial construction	\$ —	\$ —	\$ —	\$ —
Commercial real estate owner occupied	439	783	103	439
Commercial real estate non-owner occupied	550	622	340	550
Tax exempt	—	—	—	—
Commercial and industrial	207	677	363	207
Residential real estate	4,385	6,835	3,908	4,385
Home equity	963	1,269	809	963
Consumer other	5	5	5	5
Total loans	6,549	10,191	5,528	6,549
Other real estate owned	—	—	—	—
Total non-performing assets	\$ 6,549	\$ 10,191	\$ 5,528	\$ 6,549
Accruing loans 90+ days past due	\$ 216	\$ 134		
Total non-performing loans/total loans	0.23 %	0.40 %	0.18 %	0.23 %
Total non-performing assets/total assets	0.17	0.27	0.14	0.17

### Allowance for Credit Losses

Our loan portfolio is regularly reviewed by management to evaluate the adequacy of the allowance for credit losses ("ACL"). The allowance represents management's estimate of inherent losses that are probable and estimable as of the date of the financial statements. The ACL is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally **comprised of** larger non-accruing commercial **loans and troubled debt restructurings ("TDRs")**, **loans**. The **allowance for credit losses**, **ACL** is discussed further in Note 1 – *Summary of Significant Accounting Policies* of the Consolidated Financial Statements.

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[Table of Contents](#)

The following table presents an analysis of the **allowance for credit losses** **ACL** for the years indicated:

(in thousands, except ratios)	2022	2021	2023	2022
Balance at beginning of year	\$ 22,718	\$ 19,082	\$ 25,860	\$ 22,718
Impact of CECL adoption	—	5,228		
<i>Charged-off loans:</i>				
Commercial construction	—	—	—	—
Commercial real estate owner occupied	—	(403)	—	—
Commercial real estate non-owner occupied	—	—	—	—
Tax exempt	—	—	—	—
Commercial and industrial	(8)	(59)	(664)	(8)
Residential real estate	(84)	(77)	(8)	(84)
Home equity	(7)	(154)	(12)	(7)
Consumer other	(267)	(205)	(289)	(267)
Total charged-off loans	(366)	(898)	(973)	(366)
<i>Recoveries on charged-off loans:</i>				
Commercial construction	—	18	—	—
Commercial real estate owner occupied	120	290	142	120
Commercial real estate non-owner occupied	—	4	—	—
Tax exempt	—	—	—	—
Commercial and industrial	341	77	149	341
Residential real estate	106	159	31	106
Home equity	25	51	6	25
Consumer other	12	9	19	12
Total recoveries on charged-off loans	604	608	347	604
Net recoveries (charge-offs)	238	(290)		
Net (charge-offs) recoveries			(626)	238
Provision for credit losses	2,904	(1,302)	2,908	2,904
Balance at end of year	\$ 25,860	\$ 22,718	\$ 28,142	\$ 25,860
<i>Ratios:</i>				
Net (recoveries) charge-offs/average loans	(0.01)%	0.01 %		
Net charge-offs (recoveries)/average loans			0.02 %	(0.01)%
Recoveries/charged-off loans	165	68	36	165
Allowance for credit losses/total loans	0.89	0.90	0.94	0.89
Allowance for credit losses/non-accruing loans	395	223	509	395

[Table of Contents](#)

The following table presents year-end data for the approximate allocation of the **allowance for credit losses** **ACL** by loan categories at the dates indicated. For each loan category, the table shows the amount of the allowance allocated to that category as a percentage of the outstanding

loans in that category. The allocation of the allowance to each category is not indicative of future losses and does not restrict the use of any of the allowance to absorb losses in any category.

(in thousands, except ratios)	2022		2021		2023		2022	
	% Allocated to		% Allocated to		% Allocated to		% Allocated to	
	Amount	Total Loans						
Commercial construction	\$ 2,579	0.09 %	\$ 2,111	0.08 %	\$ 4,261	0.14 %	\$ 2,579	0.09 %
Commercial real estate owner occupied	2,189	0.08	2,751	0.11	2,863	0.10	2,189	0.08
Commercial real estate non-owner occupied	9,341	0.32	5,650	0.23	9,443	0.31	9,341	0.32
Tax exempt	93	—	86	0.01	119	—	93	—
Commercial and industrial	3,493	0.12	5,369	0.21	3,259	0.11	3,493	0.12
Residential real estate	7,274	0.25	5,862	0.23	7,352	0.25	7,274	0.25
Home equity	811	0.03	814	0.03	767	0.03	811	0.03
Consumer other	80	—	75	—	78	—	80	—
<b>Total</b>	<b>\$25,860</b>	<b>0.89 %</b>	<b>\$22,718</b>	<b>0.90 %</b>	<b>\$28,142</b>	<b>0.94 %</b>	<b>\$25,860</b>	<b>0.89 %</b>

#### [Table of Contents](#)

#### INVESTMENT SECURITIES ACTIVITIES

The objective of the investment portfolio is to provide liquidity when loan demand is high, and to absorb excess funds when demand is low. The securities portfolio also provides a medium for certain interest rate risk measures intended to maintain an appropriate balance between interest income from loans and total interest expense. For additional information, see Item 7A of this Annual Report.

We invest in what we believe to be high-quality investment-grade securities. Investment decisions are made in accordance with the investment and treasury policies and include consideration of risk, return, duration, and portfolio concentrations. For further discussion on investments see Note 2 – *Securities Available for Sale* of the Consolidated Financial Statements.

The following table presents the amortized cost and fair value of securities available for sale for the years indicated:

(in thousands)	2022		2021		2023		2022	
	Amortized		Amortized		Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
<b>Debt Securities:</b>								
Obligations of US Government-sponsored enterprises					\$ 2,021	\$ 1,992	\$ 2,692	\$ 2,660
<b>Mortgage-backed securities and collateralized mortgage obligations:</b>								
US Government-sponsored enterprises	\$ 249,838	\$ 215,027	\$ 237,283	\$ 236,117	223,602	193,282	249,838	215,027
US Government agency	93,010	82,266	79,143	79,637	85,005	74,213	90,318	79,606
Private label	64,056	60,154	64,691	64,695	60,888	59,051	64,056	60,154
Obligations of states and political subdivisions thereof	121,939	107,737	140,585	141,776	119,857	110,168	121,939	107,737
Corporate bonds	102,505	94,332	93,994	96,051	105,552	95,868	102,505	94,332
<b>Total</b>	<b>\$ 631,348</b>	<b>\$ 559,516</b>	<b>\$ 615,696</b>	<b>\$ 618,276</b>	<b>\$596,925</b>	<b>\$534,574</b>	<b>\$631,348</b>	<b>\$559,516</b>

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[Table of Contents](#)

The following table presents the amortized cost and weighted average yields of securities available for sale at by maturity:

(in thousands, except ratios)	December 31, 2022					December 31, 2023				
	Within 1 Year	Over 1 Year	Over 5 Years	Over 10 Years	Total	Within 1 Year	Over 1 Year	Over 5 Years	Over 10 Years	Total
	1 Year	to 5 Years	to 10 years	10 Years	Total	1 Year	to 5 Years	to 10 years	10 Years	Total
<b>Debt Securities:</b>										
Obligations of US Government-sponsored enterprises						\$ —	\$ 83	\$ 513	\$ 1,425	\$ 2,021
<b>Mortgage-backed securities and collateralized mortgage obligations:</b>										
US Government-sponsored enterprises	\$ 24	\$ 1,759	\$ 9,954	\$ 238,101	\$ 249,838	634	3,447	17,225	202,296	223,602
US Government agency	1	188	1,223	91,598	93,010	6	240	3,272	81,487	85,005
Private label	—	—	27,209	36,847	64,056	—	—	27,234	33,654	60,888
Obligations of states and political subdivisions thereof	195	530	3,894	117,320	121,939	—	450	2,127	117,280	119,857
Corporate bonds	—	37,755	59,750	5,000	102,505	3,038	49,939	47,569	5,006	105,552
<b>Total</b>	<b>\$ 220</b>	<b>\$ 40,232</b>	<b>\$ 102,030</b>	<b>\$ 488,866</b>	<b>\$ 631,348</b>	<b>\$3,678</b>	<b>\$ 54,159</b>	<b>\$ 97,940</b>	<b>\$ 441,148</b>	<b>\$596,925</b>
Weighted Average Yield	5.39 %	5.54 %	3.93 %	2.17 %	2.66 %	5.51 %	5.67 %	5.28 %	2.68 %	3.40 %

#### DERIVATIVE FINANCIAL INSTRUMENTS

Interest swap derivatives are utilized to minimize fluctuations in earnings and cash flows caused by interest rate volatility either in the form of interest rate swaps on wholesale funding and variable rate loans designated as cash flow hedges or

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[Table of Contents](#)

partial interest rate hedges on securities accounted for as fair value hedges. For further discussion on derivatives see Note 10 – *Derivative Financial Instruments and Hedging Activities* of the Consolidated Financial Statements.

Derivative products are offered in the form of interest rate swaps and interest rate caps, to commercial loan customers to facilitate their risk management strategies. An interest rate swap is entered into with a customer, while at the same time an offsetting interest rate swap with another financial institution is entered into to offset. These interest rate swap transactions allow customers to effectively fix the interest rate on their loans. Customer loan derivative income is recognized for the upfront fee paid by the customer at origination. These swaps are designated as economic hedges and transactions are cleared through arrangements with third-party financial institutions.

Mortgage banking activities result in two types of derivative instruments. Interest rate lock commitments are offered to residential loan customers, to allow them the ability to lock into a fixed interest rate prior to closing, for loans intended to sell are classified as non-hedging derivatives. To offset this risk, an offsetting forward sale commitment may be entered into with national financial institutions to purchase the loans selected for sale under a best efforts or mandatory delivery contract accounted for as an economic hedge.

Floating-rate fundings are certain hedging transactions and certain products, such as floating-rate loans and mortgages, determine the applicable interest rate or payment amount by reference to a benchmark rate, such as the secured interbank overnight financing rate ("SOFR"), London Interbank Offered Rate ("LIBOR"), or to an index, basket or other financial metric. We continue to transition loans with LIBOR based interest rates to other benchmark rates due to recent national, international, and other regulatory rate reform guidance. The transition of those variable rate loans is expected to be complete by June 30, 2023.

#### DEPOSIT ACTIVITIES

A variety of deposit products to consumers, businesses and institutional customers with a wide range of interest rates and terms are offered. Deposits consist of interest-bearing and non-interest-bearing demand accounts, savings accounts, money market deposit accounts, and certificates of deposit. Deposits are solicited primarily in the market area, excluding brokered deposits. Competitive pricing policies, marketing and customer service to attract and retain deposits are relied upon.

Customer-related deposit fees are a significant source of fee income and principally derived from debit card interchange fees earned from transaction fees that merchants pay whenever a customer uses a debit card to make a purchase. Customer deposit fees are also earned from a variety of deposit accounts with various fee schedules and terms, which are designed

#### [Table of Contents](#)

to meet the customer's financial needs. Other depositor-related fee services provided to customers include ATMs, remote deposit capture, ACH origination, wire transfers, internet bill pay, and other cash management services.

Pricing of deposits is managed in keeping with the asset/liability management, liquidity and profitability objectives, subject to market competitive factors. Based on our experience, deposits are relatively stable sources of funds. Despite this stability, the ability to attract and maintain these deposits and rates are significantly affected by market conditions.

The following table presents the average balances and weighted average rates for deposits for the years indicated:

(in thousands, except ratios)	2022				2021				2023				2022			
	Weighted		Weighted		Weighted		Weighted		Weighted		Weighted		Weighted			
	Average	Percent	Average	Percent	Average	Percent	Average	Percent	Average	Percent	Average	Percent	Average	Percent	Average	Percent
	Balance	of Total	Rate	Balance	of Total	Rate	Balance	of Total	Rate	Balance	of Total	Rate	Balance	of Total	Rate	
Demand	\$ 679,081	22 %	— %	\$ 668,379	22 %	— %	\$ 618,685	20 %	— %	\$ 679,081	22 %	— %				
NOW	907,123	30	0.16	949,485	31	0.11	900,035	30	0.98	907,123	30	0.16				
Savings	657,591	21	0.10	629,152	20	0.09	594,959	20	0.39	657,591	21	0.10				

Money market	466,426	15	0.63	390,150	13	0.12	406,759	13	2.48	466,426	15	0.63
Time deposits	366,404	12	0.61	424,899	14	1.51	532,981	17	3.19	366,404	12	0.61
<b>Total</b>	<b>\$3,076,625</b>	<b>100 %</b>	<b>0.24 %</b>	<b>\$3,062,065</b>	<b>100 %</b>	<b>0.65 %</b>	<b>\$3,053,419</b>	<b>100 %</b>	<b>1.25 %</b>	<b>\$3,076,625</b>	<b>100 %</b>	<b>0.24 %</b>

12

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[Table of Contents](#)

Estimated uninsured non-maturity deposits were \$328.5 million \$525.3 million as of December 31, 2022 December 31, 2023 and \$352.9 million \$617.7 million as of December 31, 2021 December 31, 2022. Estimated uninsured time deposits were \$13.8 million \$60.0 million and \$24.6 million \$27.9 million as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

The following table presents the scheduled maturities of time deposits greater than \$250 thousand at December 31, 2022 December 31, 2023:

(in thousands, except ratios)	Amount	Amount
Three months or less	\$ 13,584	\$ 33,583
Over 3 months through 6 months	7,626	31,522
Over 6 months through 12 months	19,121	85,198
Over 12 months	7,190	4,122
<b>Total</b>	<b>\$ 47,521</b>	<b>\$ 154,425</b>

**BORROWING ACTIVITIES**

Borrowings may be utilized as an alternative source of funds which can be invested at a positive interest rate spread when additional capacity to fund loan demand is desired or when asset/liability management goals are met to diversify funding sources and enhance interest rate risk management.

Borrowings historically have included advances from the Federal Home Loan Bank of Boston ("FHLB"), securities sold under repurchase agreements, and a correspondent bank unsecured line of credit. Advances may be obtained from the FHLB by collateralizing the advances with certain loans and investment securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features.

We also have subordinated notes, junior subordinated debenture and other sources of liquidity that are fully described in Note 7 –Borrowed Funds of the Consolidated Financial Statements.

**RETAIL BROKERAGE SERVICES**

Bar Harbor Financial Services principally serves the brokerage needs of individuals ranging from first-time purchasers to sophisticated investors. It also offers a line of life insurance, annuity, and retirement products, as well as financial planning services. These products are not deposits, are not insured by the FDIC Federal Deposit Insurance Corporation ("FDIC") or any other government agency, are not guaranteed by the Bank or any affiliate, and may be subject to investment risk, including possible loss of principal.

13

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[Table of Contents](#)

The Bank Bar Harbor Financial Services is a branch office of Infinex Investments, Osaic Institutions, Inc., ("Infinex" Osaic") a full-service third-party broker-dealer, conducting business under the assumed business name "Bar Harbor Financial Services." Infinex Osaic is an independent registered broker-dealer and is not affiliated with the Company or its subsidiaries. Infinex Osaic was formed by a group of member banks, and is one of the largest providers of third-party investment and insurance services to banks and their customers in New England. Through Infinex, Osaic, the expertise, capabilities, and experience of a well-established third-party broker-dealer is obtained in a cost effective manner.

## TRUST MANAGEMENT SERVICES

The Bank has one wholly-owned subsidiary, BHWM, that provides a comprehensive array of fiduciary services including trust and estate administration, wealth advisory services, and investment management services to individuals, businesses, not-for-profit organizations, and municipalities. As a New Hampshire-chartered trust company, Bar Harbor Wealth Management BHWM is subject to New Hampshire laws applicable to trust companies and fiduciaries. Professional advisors help individuals and families structure accounts that will meet their long-term financial needs. To many wealth management clients, the effective transfer of wealth to future generations is of paramount importance. The trust services act as a fiduciary for various types of trusts and serves as the investment manager for these accounts. Outside of trust services, they also provide 401(k) plan services, financial, estate and charitable planning, investment management, family office, municipal and tax services. The

13

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## Table of Contents

employees include credentialed investment professionals with extensive experience. At December 31, 2022 December 31, 2023 and 2021, 2022, trust management services had total assets under management ("AUM") of \$2.3 billion \$2.5 billion and \$2.5 billion \$2.3 billion, respectively.

## HUMAN CAPITAL

We are very fortunate to have a diverse, committed team throughout Maine, New Hampshire, and Vermont who are capable, determined and empowered to drive our company forward. As of December 31, 2022 December 31, 2023, we had 486,462 full time equivalent employee positions. None of our colleagues are represented by unions. All employment decisions are based on talent and potential for growth. Our ability to attract and retain diverse, top-tier talent while sustaining and deepening the current employees' relationship relationships is critical to maintaining a best-in-class customer and employee colleague experience. The opportunity for personal and professional development is a critically important focus of ours and one that helps us retain top talent. We are keenly aware of our ability to be a positive impact in the communities we serve, as such we are committed to supporting, developing, and encouraging employees to engage colleague engagement with their communities.

We invest in our employees and continuously encourage them to build the skills they need to become an even more valuable team member. Opportunities are provided for employees colleagues to take on challenging and intriguing work to advance their career goals and transition into new roles as the banking industry evolves. Developing In addition, we provide colleagues with access to a variety of programs aligned developed to align with employee the knowledge, skills and capabilities is that are critical to our organization's success both now and creates robust development opportunities supported by leaders at every level. In the future.

Attracting, retaining, and rewarding high-performing talent is key to our success. Our total rewards program is designed to recognize and reward top talent and keep employees colleagues engaged effectively. Compensation programs A critical component of our total rewards program is compensation. Our compensation strategy is deeply rooted in a pay for performance philosophy. The intent of this strategy is to align with our Pay for Performance philosophy colleague contributions and guarantees that every employee knows their contribution to rewards with the success of the organization. We participate in several market studies, including peers in the banking industry, to ensure competitive pay, benefits, and programs are offered to validate that we are an employer of choice. programs. Annual merit increases align with market data and performance to ensure fair and equitable practices are adhered to. Incentive programs are a meaningful component of colleague

compensation and are tied to both company and individual performance. To complement these programs, employees colleagues are also able to provide and receive recognition through our online portal, Bar Harbor Connect. When recognized employees colleagues receive points that they can then choose to redeem them for rewards that matter most to them including of their choice such as gift cards, logo items, and concert tickets.

Our Beyond compensation, our total rewards program underscores our commitment to an employee's colleague's health and well-being is evidenced through well-being. We offer comprehensive benefit packages, including medical, dental, vision, life, and disability, offerings, and several other voluntary programs. We also contribute to employee-owned health savings accounts and have a robust utilize our wellness program to encourage employees colleagues to stay fit physically and mentally. The retirement savings programs include a 401(k) plan with a generous Company company match that vests immediately, along with an Employee Stock Purchase Plan (ESPP) that allows employees colleagues to be owners of the Company company at a reduced price. The plan encourages employees ESPP provides a benefit to our colleagues while also encouraging them to think and make decisions like shareholders while mitigating risk-taking behavior. shareholders.

14

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#### [Table of Contents](#)

Providing good work-life balance choices results in our employees' colleagues' making more meaningful contributions in the workplace. We have a Paid Time Off policy to support employees' generous paid time management and off program as well as paid volunteer time to support this. In 2022, addition, we continued to offer Flexible Work Arrangements, ("FWA"), which includes programs offers options such as fully remote, partially remote, condensed workweeks, and flexible hours. The flexibility of these various FWAs arrangements allows employees colleagues to manage their work-life needs while continuing to deliver stellar results in the workplace.

We value a diverse workforce to ensure different Embracing unique perspectives and ideas supporting inclusivity and diversity are considered at the core of who we are. We strive to understand the unique opportunities and are a part of operations. As part of the challenges that our customers and colleagues face. Our commitment to equal employment opportunities, we seek racial and social equity is ingrained in our guiding principles and allows us to ensure affirmative action provides equality of opportunity in all aspects of employment, work together to foster an inclusive and equitable work environment.

Serving the needs of all of the members of our communities also remains an important part of our commitment and strategy. For more than 135 137 years, the Bank has contributed to the economic health and vitality of the communities we serve, and we serve. We are proud that our employees are involved in the communities in which we live and work. Each year, Bank employees colleagues volunteer countless hours of their time on community projects and serve on nonprofit boards. In addition to these efforts, we have

14

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#### [Table of Contents](#)

provided charitable donations to more than 450 community organizations across the Northern New England states of Maine, New Hampshire, and Vermont.

#### **REGULATION AND SUPERVISION**

As a bank holding company, the Company is regulated under the federal Bank Holding Company Act ("BHC Act") and is subject to examination and supervision by the Federal Reserve Board. The Federal Reserve Board requires the Company to file various reports and also may conduct

an examination of the Company.

The Company is also under the jurisdiction of the **Securities and Exchange Commission ("SEC") SEC** and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Exchange Act. The Company's common stock is listed on the New York Stock Exchange American exchange ("NYSE American") under the trading symbol "BHB," and is subject to the rules of NYSE American for listed companies.

As a Maine-chartered financial institution, the Bank is subject to supervision, regular examination, and regulation by the Maine Bureau of Financial Institutions ("BFI") and the **Federal Deposit Insurance Corporation ("FDIC") FDIC** as its primary federal regulator and as its deposit insurer. The Bank's deposits are insured by the FDIC in accordance with applicable federal laws and regulations. The prior approval of the BFI and the FDIC is required, among other things, for the Bank to assume deposits or engage in any merger, consolidation, purchase or sale of all or substantially all of the assets of any bank. The prior approval of the FDIC is required, and the prior approval of the BFI may be required, for the Bank to establish or relocate a branch office.

**Bar Harbor Wealth Management, BHWM**, a New Hampshire chartered non-depository trust company and an indirect subsidiary of the Bank, ("BHWM"), is subject to supervision, regular examination, and regulation by the New Hampshire Banking Department. On April 30, 2022, Bar Harbor Trust Services, which was a Maine chartered non-depository trust company and a wholly-owned subsidiary of the Bank, merged with and into BHWM (formerly named Charter Trust Company).

In accordance with NH RSA 383-C:5-502, BHWM's Capital Plan requires minimum capital of \$1.0 million to be invested in accordance with NH RSA 564-B:9-902. As of **December 31, 2022** December 31, 2023, BHWM's total capital was **\$13.8 million** \$16.8 million and it had liquidation reserves of **\$503** \$504 thousand held in a money market account. BHWM also had operating reserves of **\$10.8 million** \$15.7 million held primarily at the Bank. As of **December 31, 2022** December 31, 2023, BHWM had an appropriate liquidation reserve, minimum capital in excess of statutory requirements, and all funds were held in accordance with prudent investor standards of NH RSA 564-B:9-902 and as required by NH RSA 383-C:5-502.

Any change in applicable laws or regulations could have a material adverse impact on the operations and financial performance of the Company and the Bank. In addition, the Company and the Bank are affected by the monetary and fiscal policies of the United States Government, including the Federal Reserve Board. In view of changing conditions in the national economy and in the financial markets, it is impossible for management to accurately predict future changes in monetary policy or the effect such changes may have on the business or financial condition of the Company and the Bank.

#### **Certain Laws and Regulations Applicable to the Company**

The BHC Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which the Company may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. Below is a summary of certain provisions of the BHC Act and

#### [Table of Contents](#)

certain other laws and regulations applicable to the Company. These laws or regulations may be amended or changed by Congress or through other governmental or legal processes, which could have a material effect on the results of the Company.

#### **Permitted Activities**

Generally, bank holding companies are prohibited under the BHC Act from engaging in non-banking activities, or acquiring direct or indirect control of any company engaged in non-banking activities. The Federal Reserve Board has allowed by regulation some exceptions based on activities closely related to banking including: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary.

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[\*\*Table of Contents\*\*](#)

investment or financial advisor; and (v) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies. The Federal Reserve Board has the authority to require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries or affiliates when the Federal Reserve Board believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness, or stability of any of its banking subsidiaries.

A bank holding company that qualifies and elects to become a financial holding company is permitted to engage in additional activities that are financial in nature or incidental or complementary to financial activity. The Company currently has no plans to make a financial holding company election.

***Safe and Sound Banking Practices***

Bank holding companies and their non-banking subsidiaries are prohibited from engaging in activities that represent unsafe and unsound banking practices. For example, under certain circumstances the Federal Reserve Board's Regulation Y requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any repurchases during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate a regulation. As another example, a holding company is prohibited from impairing its subsidiary bank's safety and soundness by causing the bank to make funds available to non-banking subsidiaries or their customers if the Federal Reserve Board believes it not prudent to do so. The Federal Reserve Board has the power to assess civil money penalties for knowing or reckless violations, if the activities leading to a violation caused a substantial loss to a depository institution. Potential penalties are as high as \$1,000,000 for each day the activity continues.

***Dividends***

Dividends from the Bank are the Company's principal source of cash revenues. The Company's earnings and activities are affected by federal and state legislation, regulations, local legislative and administrative bodies, and decisions of courts in the jurisdictions in which business is conducted. These include limitations on the ability of the Bank to pay dividends to the Company and the Company's ability to pay dividends to its shareholders. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiary. Consistent with such policy, a banking organization should have comprehensive policies on dividend payments that clearly articulate the organization's objectives and approaches for maintaining a strong capital position and achieving the objectives of the policy statement.

The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Maine law requires the approval of the BFI for any dividend that would reduce a bank's capital below prescribed limits.

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[\*\*Table of Contents\*\*](#)***Source of Strength***

In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial and managerial strength to the Bank. Section 616 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") codifies the requirement that bank holding companies serve as a source of financial strength to their subsidiary depository institutions. Under this policy, the bank holding company is expected to commit resources to support its bank subsidiary, including at times when the bank holding company may not be in a financial position to provide it. As discussed below, the Company could be required to guarantee the capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The BHC Act provides that, in the event of

[Table of Contents](#)

a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

***Anti-tying Restrictions***

Bank holding companies and their affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a bank holding company or its affiliates.

***Mergers & Acquisitions***

The BHC Act, the federal Bank Merger Act, the laws of the State of Maine applicable to financial institutions and other federal and state statutes regulate acquisitions of banks and their holding companies. The BHC Act generally limits acquisitions by bank holding companies to banks and companies engaged in activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before (i) acquiring more than 5% of the voting stock of any bank or other bank holding company, (ii) acquiring all or substantially all of the assets of any bank or bank holding company, or (iii) merging or consolidating with any other bank holding company.

In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities generally consider, among other things, the competitive effect and public benefits of the transactions, the financial and managerial resources and future prospects of the combined organization (including the capital position of the combined organization), the applicant's performance record under the federal Community Reinvestment Act (see *Community Reinvestment Act* included in Item I), fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

***Limitations on Acquisitions of the Company's Common Stock***

The federal Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the appropriate federal bank regulator has been notified and has not objected to the transaction. Under a rebuttable presumption established by the federal bank regulator, the acquisition of 10% or more of a class of voting securities of a bank holding company with a class of securities registered under Section 12 of the Exchange Act would constitute the acquisition of control of a bank holding company. In addition, the BHC Act prohibits any company from acquiring control of a bank or bank holding company without first having obtained the approval of the federal bank regulator. Among other circumstances, under the BHC Act, a company has control of a bank or bank holding company if the company owns, controls or holds with power to vote 25% or more of a class of voting securities of the bank or bank holding company, controls in any manner the election of a majority of directors or trustees of the bank or bank holding company, or the federal bank regulator has determined, after notice and opportunity for hearing, that the company has the power to exercise a controlling influence over the management or policies of the bank or bank holding company.

***Transactions with Affiliates***

The holding company and the Bank are considered "affiliates" of each other under the Federal Reserve Act, and transactions between a bank and its affiliates are subject to certain restrictions, under Sections 23A and 23B of the Federal

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[Table of Contents](#)

Reserve Act and the Federal Reserve Board's implementing Regulation W. Generally, Sections 23A and 23B: (1) (i) limit the extent to which an insured depository or its subsidiaries may engage in covered transactions (a) with an affiliate (as defined in such sections) to an amount equal to 10% of such institution's capital and surplus, and (b) with all affiliates, in the aggregate to an amount equal to 20% of such capital and surplus; and (2) (ii) require all transactions with an affiliate, whether or not covered transactions, to be on terms substantially the same, or at least as favorable to the institution or subsidiary, as the terms provided or that would be provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions.

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[Table of Contents](#)***State Law Restrictions***

As a Maine corporation, the Company is subject to certain limitations and restrictions under applicable Maine corporate law. For example, state law restrictions in Maine include limitations and restrictions relating to indemnification of directors, distributions and dividends to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records, and minutes, and observance of certain corporate formalities. Further, as a Maine financial institution holding company, the Company is also subject to certain requirements and restrictions under applicable Maine banking law.

***Capital Adequacy and Prompt Corrective Action***

In July 2013, the Federal Reserve Board, the FDIC and the Office of the Comptroller of the Currency issued final rules (the "Capital Rules") that established the current capital framework for U.S. banking organizations. The Capital Rules generally implement the Basel Committee on Banking Supervision's December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. In addition, the Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal banking agencies' rules. The Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries. The risk based capital guidelines are designed to make regulatory capital requirements sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposures and to minimize disincentives for holding liquid, low-risk assets.

The Capital Rules: (i) require a capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. The Capital Rules revised the definitions and the components of regulatory capital and impacted the calculation of the numerator in banking institutions' regulatory capital ratios.

The Capital Rules prescribe a standardized approach for risk weightings, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures, resulting in higher risk weights for a variety of asset classes.

Pursuant to Section 38 of the Federal Deposit Insurance Act ("FDI Act"), federal banking agencies are required to take "prompt corrective action" should an insured depository institution fail to meet certain capital adequacy standards. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if an

insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

For purposes of Section 38 of the FDI Act, for an insured depository institution to be classified as well-capitalized, it must have a:

18

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[Table of Contents](#)

- (i) total risk-based capital ratio of at least 10%,
- (ii) Tier 1 risk-based capital ratio of at least 8%,
- (iii) CET1 risk-based capital ratio of at least 6.5%, and
- (iv) leverage ratio of at least 5%.

In order to be classified as "well-capitalized" under the relevant regulatory framework, the Company must, on a consolidated basis, have a:

- (i) total risk-based capital ratio of at least 10%, and

18

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[Table of Contents](#)

- (ii) Tier 1 risk-based capital ratio of at least 6%.

Both the Bank and the Company have always maintained regulatory capital ratios above the levels to be considered quantitatively well-capitalized. For information regarding the regulatory capital ratios of the Bank and the Company as of ~~December 31, 2021~~ December 31, 2023 and December 31, 2022, respectively, see the discussion under the section captioned *Capital Resources* included in Item 7 – *Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Annual Report and Note 12 – *Shareholders' Equity and Earnings Per Common Share* of the Consolidated Financial Statements.

**Other Significant Banking Regulations Applicable to the Bank**

***Deposit Insurance***

The Bank's deposit accounts are fully insured by the Deposit Insurance Fund ("DIF") of the FDIC up to the deposit insurance limits set forth in applicable law and regulations.

The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a risk matrix that accounts for a bank's capital level and supervisory rating (CAMELS rating). The risk matrix uses different risk categories distinguished by capital levels and supervisory ratings. The base for deposit insurance assessments is consolidated average assets less average tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed. The FDIC may increase or decrease the assessment rate schedule in order to manage the DIF to prescribed statutory target levels. An increase in the risk category for the Bank or in the assessment rates could have an adverse effect on the Bank's and consequently the Company's earnings. The FDIC may terminate deposit insurance if it determines the institution involved has engaged in or is engaging in unsafe or unsound banking practices, is in an unsafe or unsound condition, or has violated applicable laws, regulations or orders.

### **Consumer Financial Protection**

The Company is subject to a number of federal and state consumer protection laws that govern its relationship with its customers. These laws include, for example, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, the Service Members Civil Relief Act and these federal laws' respective state law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the Bank's ability to raise interest rates and subject the Bank to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees.

Further, the CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. Abusive acts or practices are defined as those that (i) materially interfere with a consumer's ability to understand a term or condition of a consumer financial product or service; or (ii) take unreasonable advantage of: (a) a consumer's: (i) lack of understanding on the part of the consumer of the material risks, costs, or conditions of the product or service, (ii) service; (b) the inability of the consumer to

19

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### [Table of Contents](#)

protect its interests the consumer in selecting or using a consumer financial product or service; or (iii) (c) the reasonable reliance by the consumer on a covered entity person to act in the consumer's interests. interests of the consumer.

Neither the Dodd-Frank Act nor the individual consumer financial protection laws prevent states from adopting stricter consumer protection standards.

19

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### [Table of Contents](#)

### **Brokered Deposit Restrictions**

Under the FDIC Improvement Act, banks may be restricted in their ability to accept brokered deposits, depending on their classification. "Well-capitalized" institutions are permitted to accept brokered deposits, but all banks that are not well- capitalized could be restricted from accepting such deposits. The Bank is currently well-capitalized and not restricted from accepting brokered deposits.

### **Community Reinvestment Act**

The Community Reinvestment Act of 1977 ("CRA"), requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. During its last examination, the Bank received a CRA rating of "satisfactory".

#### ***Insider Credit Transactions***

Section 22(h) of the Federal Reserve Act (the "FRA") and its implementing Regulation O, restricts loans to directors, executive officers, and principal shareholders ("insiders"). Under Section 22(h), loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the Board of Directors. Further, under Section 22(h) of the FRA, loans to directors, executive officers and principal shareholders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the bank's employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

#### ***Safety and Soundness***

Under the FDI Act, each federal banking agency has prescribed, by regulation, non-capital safety and soundness standards for institutions under its authority. These standards cover internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

#### ***Financial Privacy***

Section V of the Gramm-Leach-Bliley Act ("GLBA") and its implementing regulations require all financial institutions, including the Company and the Bank and the Bank's subsidiaries, to adopt privacy policies, restrict the sharing of nonpublic customer data with non-affiliated parties at the customer's request, limit the reuse of certain consumer information received from non-affiliated financial institutions, and establish procedures and practices to protect customer data from unauthorized access. In addition, the Fair Credit Reporting Act ("FCRA"), as amended by the Fair and Accurate

20

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#### **Table of Contents**

Credit Transactions Act of 2003 (the "FACT Act"), includes many provisions affecting the Company, Bank, and/or their affiliates, including provisions concerning obtaining consumer reports, furnishing information to consumer reporting agencies, maintaining a program to prevent identity theft, sharing of certain information among affiliated companies, and other provisions. The FACT Act requires entities subject to FCRA to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The CFPB and the Federal Trade Commission ("FTC") have extensive rulemaking authority under the FACT Act, and the

20

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#### **Table of Contents**

Company and the Bank are subject to the rules that have been promulgated under the FACT Act, including rules requiring financial institutions with covered accounts (e.g. consumer bank accounts and loans) to develop, implement, and administer an identity theft protection program, as

well as rules regarding limitations on affiliate marketing and implementation of programs to identify, detect and mitigate certain identity theft red flags. The Company has developed policies and procedures for itself and its subsidiaries, including the Bank, and believes it is in compliance with all privacy, information sharing, and notification provisions of the GLBA and the FACT Act. The Bank is also subject to data security standards, privacy and data breach notice requirements, primarily those issued by the FDIC, as well as under state laws.

#### ***Anti-Money Laundering Initiatives and the USA Patriot Act***

A major focus of governmental policy on financial institutions over the last two decades has been combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 ("USA Patriot Act"), substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of their customers. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, can have serious legal and reputational consequences for the institution.

#### ***Office of Foreign Assets Control Regulation***

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. The Company is responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences.

#### ***Guidance on Sound Compensation Policies***

The Dodd-Frank Act requires publicly traded companies to give shareholders a non-binding vote on **named executive officer** compensation at least every three years (the so-called "say-on-pay vote") and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions. In addition, the Dodd-Frank Act requires publicly traded

#### ***Table of Contents***

companies to give shareholders a non-binding vote, at least once every six years, on how frequently to hold the "say on pay" vote.

The Dodd-Frank Act also requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities with at least \$1 billion in total consolidated assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. The

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[Table of Contents](#)

federal banking agencies and the SEC most recently proposed such regulations in 2016, but the regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will restrict the manner in which executive compensation is structured.

***Changing Regulatory Structure and Future Legislation and Regulation***

Congress may enact further legislation that affects the regulation of the financial services industry, and state legislatures may enact further legislation affecting the regulation of financial institutions. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The Company cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof, although enactment of the proposed legislation could impact the regulatory structure under which the Company operates and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to the Company's business strategy, and limit the Company's ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to the Company or any of its subsidiaries could have a material effect on its business.

***Other Laws and Regulations***

The Company is not only subject to federal laws applicable to it, it is also subject to the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

**ITEM 1A. RISK FACTORS**

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference herein. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This Annual Report is qualified in its entirety by these risk factors.

If any of the events described in the risk factors should actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment.

**Credit Risks**

***Deterioration in local economies or real estate market markets may adversely affect our financial performance, as our borrowers' ability to repay loans and the value of the collateral securing the loans may decline.***

We serve individuals and businesses located in Maine, New Hampshire, and Vermont. A substantial portion of the loan portfolio is secured by real estate in these areas and the value of the associated collateral is subject to local real estate market conditions. Furthermore, many customers in the hospitality industry rely upon a high number of tourists to vacation destinations and attractions within our markets. Our success is largely dependent on the economic conditions, including employment levels, population growth, income levels, savings trends and government policies in those market areas. A downturn in the local economies may adversely affect collateral values, sources of funds, and demand for products, all of which could have a negative impact on results of operations, financial condition and business expansion.

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[Table of Contents](#)

**High concentrations of commercial loans may increase exposure to credit loss upon borrower default.**

As of December 31, 2022 December 31, 2023, approximately 64% of our loan portfolio consisted of commercial real estate, commercial and industrial and construction loans. Commercial loan portfolio concentration generally exposes lenders to greater risk of delinquency and loss than residential real estate loans because repayment of the loans often depends on the successful operation and income streams from the property. Commercial loans typically involve larger balances to single borrowers or groups of related borrowers as compared to residential real estate loans. As our loan portfolio contains a significant number of large commercial loans, the deterioration of one or a few of these loans could cause a significant increase in

22

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[Table of Contents](#)

non-performing loans, provision for loan losses, and/or an increase in loan charge-offs, all of which could adversely affect our financial condition and results of operations.

**Greater than anticipated credit losses in the loan portfolios may adversely affect our earnings.**

Credit losses are inherent in the business of making loans and could have a material adverse effect on operating results. We make various assumptions and judgments about the collectability of the loan portfolio and provide an allowance for credit losses ACL based on a number of factors. The allowance for credit losses ACL is evaluated on a periodic basis using current information, including the quality of the loan portfolio, economic conditions, and value of the underlying collateral and the level of non-accrual loans. Although we believe the allowance for credit losses ACL is appropriate to absorb probable losses in the loan portfolio, this allowance may not be adequate. Increases in the allowance will result in an expense for the period, thereby reducing reported net income.

**We are exposed to risk of environmental liabilities with respect to properties to which we take title.**

In the course of business, we may own or foreclose and take title to real estate that may be subject to environmental liabilities with respect to subject property. As a result, we may be held liable for property damage, personal injury, investigation and restoration costs. The cost associated with investigation or restoration activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

**Liquidity and Interest Rate Risks**

**Interest rate volatility could significantly reduce our profitability.**

Our earnings and cash flows are largely dependent upon net interest income. Net interest income is the difference between interest income earned on interest-bearing assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, demand for loans, securities and deposits, policies of various governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, or the slope of the yield curve could influence not only the interest received on loans and securities and the amount of interest paid on deposits and borrowings, but such changes could also affect (i) the ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, and (iii) the average duration of loans and securities that are collateralized by mortgages. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. If interest rates decline, higher-rate loans and investments may be subject to prepayment risk, which could negatively impact our net interest margin. Conversely, if interest rates increase, loans and investment securities may be subject to extension risk, which could negatively impact our net interest margin as well.

**We are required to maintain sufficient capital and adequate liquidity.**

As a banking organization, our capital and liquidity are subject to regulation and supervision by banking regulators. We are required to maintain minimum levels of capital. The proportion of the Bank's deposit account balances that exceed FDIC insurance limits may expose the Bank to

enhanced liquidity risk as it relates to maintaining such levels of capital as uninsured depositors historically have been more likely to withdraw their deposits. In addition, our banking regulators could require us to maintain more and higher quality capital than previously expected. Our banking regulators could also require us to hold higher levels of short-term investments, thereby limiting our ability to invest in longer-term or less liquid assets at higher yields. The need to maintain capital and liquidity could result in our being required to take steps to increase our regulatory capital and may dilute shareholder value or limit our ability to pay dividends or otherwise return capital to our investors through stock repurchases. In addition, if we fail to maintain appropriate levels of capital or liquidity, we could become subject to formal or informal enforcement actions that may impose restrictions on our business, including limiting our lending activities or our ability to expand, requiring us to raise additional capital (which may be dilutive to shareholders) or requiring regulatory approval to pay dividends or otherwise return capital to shareholders. See Item 1. "Business—Regulation and Supervision—Capital Adequacy and Prompt Corrective Action" for additional information on capital requirements applicable to us and the Bank.

23

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[Table of Contents](#)

***The Company's earnings may not grow if we are unable to successfully attract core deposits and lending opportunities and execute opportunities to generate fee-based income.***

The Company has experienced growth, and our future business strategy is to continue to expand. Historically, the growth of our loans and deposits has been the principal factor in our increase in net-interest income. In the event that we are unable to execute our business strategy of continued growth in loans and deposits, our earnings could be adversely impacted. The Company's ability to continue to grow depends, in part, upon our ability to expand our market share, to successfully attract core deposits and identify loan and investment opportunities, as well as opportunities to generate fee-based income. Our ability to manage growth successfully will also depend on whether we can continue to efficiently fund asset growth and maintain asset quality and cost controls, as well as on factors beyond our control, such as economic conditions and interest-rate trends.

***Wholesale funding sources may prove insufficient to replace deposits, support operations and future growth.***

We must maintain sufficient funds to respond to the needs of customers. To manage liquidity, we use a number of funding sources in addition to core deposit growth, loan repayments and maturities of loans and securities. These sources include FHLB and FRB the Federal Reserve Bank ("FRB") advances, proceeds from the sale of securities and loans and liquidity resources at the holding company. Our ability to manage liquidity will be severely constrained if unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable costs. In addition, if we need to rely heavily on more expensive funding sources to support future growth, revenues may not increase proportionately to cover costs. In this case, our operating margins and profitability would be adversely affected.

23

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[Table of Contents](#)

***Loss of deposits or a change in deposit mix could increase our cost of funding.***

Deposits are a low cost and stable source of funding. We compete with banks and other financial institutions for deposits. Funding costs may increase if deposits are lost and we are forced to replace them with more expensive sources of funding, if customers shift their deposits into higher cost products or if we need to raise interest rates to avoid losing deposits. Higher funding costs reduce our net interest income, net interest margin, and net income.

***Our access to funds from subsidiaries may be restricted.***

The Company is a separate and distinct legal entity from the Bank and its non-banking subsidiaries. The Company depends on dividends, distributions and other payments from its banking and non-banking subsidiaries to fund dividend payments on its common stock, debt service

of subordinated borrowings, fund stock repurchase program and to fund strategic initiatives or other obligations. The Company's subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to the Company based on assertion that certain payments from subsidiaries are considered an unsafe or unsound **practice**, which could impede our access to funds that we may need to make payments on our obligations or dividend payments, if and when declared from time to time by our board of directors in its sole discretion out of funds legally available for that purpose.

***Prepayments of loans may negatively impact our business as customers may prepay the principal amount of their outstanding loans at any time.***

The speeds at which such prepayments occur, as well as the size of such prepayments, are within the customers' discretion. Fluctuations in interest rates, in certain circumstances, may also lead to high levels of loan prepayments, which may also have an adverse impact on net interest income. If customers prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, interest income will be reduced. A significant reduction in interest income could have a negative impact on results of operations and financial condition.

***Secondary mortgage market conditions may adversely affect financial condition and earnings.***

The secondary mortgage markets are impacted by interest rates and investor demand for residential mortgage loans and increased investor yield requirements for these loans. These conditions may fluctuate in the future. As a result, a prolonged period of secondary market illiquidity may reduce our loan production volumes, change loan portfolio composition, and reduce operating results. Secondary markets are affected by Fannie Mae, Freddie Mac, and Ginny Mae for loan purchases that meet their conforming loan requirements. These agencies could limit purchases of conforming loans due to capital constraints, changes in conforming loan criteria or other factors. Proposals to reform mortgage finance could affect the role of these agencies and the market for conforming loans.

24

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[Table of Contents](#)

## Operational Risks

***We are subject to a variety of operational risks, including reputational risk, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.***

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. If personal, non-public, confidential, or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage, and financial loss.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and its large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond its control (e.g., computer viruses or electrical or telecommunications outages, natural disaster, pandemics, or other damage to property or physical assets), which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees) and to the risk that our vendors' business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability to operate (e.g., by requiring us to expend significant resources to correct the defect), as well as potential liability to customers, reputational damage, and regulatory intervention.

24

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**Table** In addition, we are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers and others with whom we conduct business or potential future business, particularly because our business is primarily concentrated in Northern New England. Our actual or perceived failure, including, to (i) identify and address potential conflicts of interest, ethical issues, money-laundering, or privacy issues; (ii) meet legal and regulatory requirements applicable to the Bank and to the Company; (iii) maintain the privacy of customer and accompanying personal information; (iv) maintain adequate record keeping; (v) engage in proper sales and trading practices; and (vi) identify the legal, reputational, credit, liquidity and market risks inherent in our products; or any action of one of our employees that results in actual or perceived misconduct or error, among other things, could give rise to reputational risk that could cause harm to the Bank and our business prospects. If we fail to address any of these issues in an appropriate manner, we could be subject to additional legal risks, which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Because we primarily serve individuals and businesses located in Northern New England, any negative impact resulting from reputational harm, including any impact on our ability to attract and retain customers and employees, likely would be greater than if our business were more geographically diverse.

***Disruptions to our information systems and security breaches may adversely affect our business and reputation.***

In the ordinary course of business, we rely on electronic communications and information systems to conduct its businesses and to store sensitive data, including financial information regarding its customers. The integrity of information systems is under significant threat from cyberattacks by third parties, including through coordinated attacks sponsored by foreign nations and criminal organizations to disrupt business operations and other compromises to data and systems for political or criminal purposes. We employ an in-depth, layered, defense approach that leverages people, processes and technology to manage and maintain cybersecurity controls. Notwithstanding the strength of defensive measures, the threat from cyberattacks is severe, attacks are sophisticated and attackers respond rapidly to changes in defensive measures. Cybersecurity risks may also occur with our third-party service providers, and may interfere with their ability to fulfill their contractual obligations to us, with additional potential for financial loss or liability that could adversely affect our financial condition or results of operations. We offer our customers the ability to bank remotely and provide other technology-based products and services, which services include the secure transmission of confidential information over the Internet and other remote channels. To the extent that our customers' systems are not secure or are otherwise compromised, its network could be vulnerable to unauthorized access, malicious software, phishing schemes and other security breaches. To the extent that our activities or the activities of its customers or third-party service providers involve

**Table of Contents**

the storage and transmission of confidential information, security breaches and malicious software could expose us to claims, regulatory scrutiny, litigation and other possible liabilities.

Information security risks have generally increased in recent years, and continue to increase, in part because of the proliferation of new technologies, the implementation of work-from-home arrangements, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties, some of which may be linked to terrorist organizations or hostile foreign governments. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our systems or to investigate and remediate vulnerabilities. System enhancements and updates may also create risks associated with implementing and integrating new systems. Due to the complexity and interconnectedness of information technology systems, the process of enhancing our systems can itself create a risk of systems disruptions and security issues.

While to date we believe that we have not experienced a significant compromise, significant data loss or material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers, are under constant threat and may experience a significant event in the future. We may suffer material financial losses related to these risks or be subject to liability for compromises to its customers or third-party providers. Any such losses or liabilities could adversely affect our financial condition or results of operations, and could expose us to reputation risk, the loss of client business, increased operational costs, as well as additional regulatory scrutiny, possible litigation, and related financial liability. These risks also include possible business interruption, including the inability to access critical information and systems.

***We have a continuing need for technological change, and we may not have the resources to implement new technology effectively, or we may experience operational challenges when implementing new technology or technology needed to compete effectively with larger institutions may not be available to us on a cost-effective basis.***

The financial services industry undergoes rapid technological changes with frequent introductions of new technology-driven products and services, including developments in telecommunications, data processing, automation, internet-based banking, debit cards and so-called "smart cards" and remote deposit capture. In addition to serving clients better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, at least in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations as we continue to grow and expand our products and service offerings. We offer electronic banking services for consumer and business customers via our website, including Internet banking and electronic bill payment, as well as mobile banking. We also offer debit cards, ATM cards, and automatic and ACH transfers. We may experience operational challenges as we implement these new technology enhancements or products, which could impair our ability to realize the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

25

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[Table of Contents](#)

Many of our larger competitors have substantially greater resources to invest in technological improvements. Third parties upon which we rely for our technology needs may not be able to develop on a cost-effective basis the systems that will enable us to keep pace with such developments. As a result, competitors may be able to offer additional or superior products compared to those that we will be able to provide, which would put us at a competitive disadvantage. We may lose clients seeking new technology-driven products and services to the extent we are unable to provide such products and services. Accordingly, the ability to keep pace with technological change is important and the failure to do so could adversely affect our business, financial condition and results of operations.

***Our operations are reliant on outside vendors.***

Our operations are dependent on the use of certain outside vendors for its day-to-day operations. Vendors may not perform in accordance with established performance standards required in their agreements for any number of reasons including a change in the vendor's senior management, financial condition, product line or mix and how they support existing customers, or simply change their strategic focus putting us at risk. While we have comprehensive policies and procedures in place to mitigate risk in all phases of vendor management from selection to performance monitoring, the failure of a vendor to perform in accordance with contractual agreements could be disruptive to our business, which could have a material adverse effect on our financial condition and results of operations.

26

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[Table of Contents](#)

***We may be adversely affected by the soundness of other financial institutions.***

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Bank and non-bank financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. Further, when volatility, market events or similar issues affect a subset of financial institutions, or when there are news reports or high-profile incidents relating to trends, concerns, and other issues in the banking industry, the ramifications can affect the sector as a whole, regardless of the effect, or lack thereof, on any specific institution. We have exposure to different industries and counterparties through transactions with counterparties in the bank and non-bank financial services industries, including brokers and dealers, commercial banks, investment banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more bank or non-bank

financial services companies, or the bank or non-bank financial services industries generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. **These losses or defaults Future events of this nature** could have an adverse effect on our business, financial condition and results of operations.

***Changes in the federal, state or local tax laws may negatively impact our financial performance and we are subject to examinations and challenges by tax authorities.***

We are subject to federal and applicable state tax laws and regulations. Changes in these tax laws and regulations, some of which may be retroactive to previous periods, could increase our effective tax rates and, as a result, could negatively affect our current and future financial performance. Furthermore, tax laws and regulations are often complex and require interpretation. In the normal course of business, we are routinely subject to examinations and challenges from federal and applicable state tax authorities regarding the amount of taxes due in connection with investments we have made and the businesses in which we have engaged. Recently, federal and state taxing authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in our favor, they could have a material adverse effect on our business, financial condition and results of operations.

***The performance of our investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.***

Changes in interest rates can negatively affect the performance of most of our investment securities. Interest rate volatility can reduce unrealized gains or increase unrealized losses in our portfolio, as was the case in **2022****2023** with the rising rate environment. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic, social and political conditions and issues, including trade disputes, global health pandemics, and other factors beyond our control. Fluctuations in interest rates can materially affect both the returns on and market value of our investment securities.

In addition, from time to time we may restructure portions of our investment securities portfolio as part of our asset liability management strategies or in response to liquidity needs, and we may incur losses, which may be material, in connection with any such restructuring. If we were to sell any of these securities before their value recovers, including as

26

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[\*\*Table of Contents\*\*](#)

a result of asset liability management strategies or in response to liquidity needs, we would be required to recognize these losses and the recognition of those losses could materially and adversely affect our results of operations, capital and financial.

***Impairment of investment securities or goodwill could result in a negative impact on our results of operations.***

In assessing whether the impairment of securities is related to a deterioration in credit factors, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain the securities for a period of time sufficient to allow for any anticipated recovery in fair value in the near term.

Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. A decline in our stock price or occurrence of a triggering event following any of its quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, require performance of a goodwill impairment test and result in an impairment charge being recorded for that period which was not reflected in such earnings release. During **2022****2023**, our annual impairment test conducted in October, using discounted

27

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cash flows and market based market-based approaches, indicated that the estimated fair value of our sole reporting unit "Bar Harbor Bank & Trust" exceeded the carrying value. In a future assessment, we could conclude that all or a portion of our goodwill is impaired, which would result in a non-cash charge to earnings.

**Revenues from our wealth management business are significant to earnings.**

Generating returns that satisfy customers in a variety of asset classes is important to maintaining existing business and attracting new business. Administering or managing assets in accordance with the terms of governing documents and applicable laws is also important to client satisfaction. Failure in either of the foregoing areas can expose us to liability, and result in a decrease in revenues and earnings.

**Our wealth management business may be negatively affected by changes in economic and market conditions.**

A decline in economic conditions, such as recession, economic downturn, and/or inflationary conditions, changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of wealth management assets under management, AUM, which are primarily marketable securities, and the fee revenues derived from the management of these assets.

**Strategic and External Risks**

***Changes and instability in economic conditions, geopolitical matters and financial markets, including a contraction of economic activity, could adversely impact our business, results of operations and financial condition.***

Our success depends, to a certain extent, upon global, domestic and local economic and political conditions, as well as governmental monetary policies. Conditions such as changes in interest rates, money supply, levels of employment and other factors beyond our control may have a negative impact on economic activity. Any contraction of economic activity, including an economic recession, may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. In particular, interest rates are highly sensitive to many factors that are beyond our control, including global, domestic and local economic conditions and the policies of various governmental and regulatory agencies and, specifically, the Federal Reserve Bank ("FRB"), FRB. Throughout 20222023 the Federal Open Market Committee ("FOMC") raised the target range for the Federal funds rate on seven four separate occasions and-citing factors including the hardships caused by the ongoing Russia-Ukraine conflict, an economic slowdown in China, continued global supply chain disruptions and imbalances, and increased inflationary pressure-the FOMC has indicated that ongoing increases may be appropriate.

The tightening of the FRB's monetary policies, including repeated and aggressive increases in the target range for the Federal funds rate as well as the conclusion of the FRB's tapering of asset purchases, together with ongoing economic and geopolitical instability, increases the risk of an economic recession. Although forecasts have varied, many economists are projecting that U.S. economic growth will slow and inflation will remain elevated in the coming quarters, potentially resulting in a contraction of U.S. gross domestic output in 2023, 2024. Any such downturn, especially domestically and in the regions in which we operate, may adversely affect our asset quality, deposit levels, loan demand and results of operations.

As a result of the economic and geopolitical factors discussed above, financial institutions also face heightened credit risk, among other forms of risk. Of note, because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral, which, in turn, can adversely affect the value of our loan and investment portfolios. Adverse economic developments, specifically including inflation-related impacts, may have a negative effect on the ability of our borrowers to make timely repayments of their loans or to finance future home purchases. Moreover, while certain commercial real estate values have stabilized as demand has returned to pre-pandemic levels in several markets; the post-pandemic outlook for commercial real estate demand remains

dependent on the broader economic environment and, specifically, how major subsectors respond to a rising interest rate environment, the reduction of office utilization due to the impact of hybrid working patterns, greater flexibility for work location, and higher prices for commodities, goods and services. In each case, credit performance over the medium- and long-term is susceptible to economic and market forces and therefore forecasts remain uncertain. Instability and uncertainty in the commercial and residential real estate markets, **including** headwinds for **mortgage rates**, lease rates and landlord cash flows, as well as in the broader commercial and retail credit markets, could have a material adverse effect on our financial condition and results of operations.

[Table of Contents](#)***Monetary policy and economic environment could impact our financial performance.***

Our earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments, and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates, thereby affecting the strength of the economy, the level of inflation, or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on our business and earnings.

***Involvement in wealth management creates risks associated with the industry.***

Our wealth management operations present special risks not borne by institutions that focus exclusively on other traditional retail and commercial banking products. For example, the investment advisory industry is subject to fluctuations in the stock market and interest rate volatility that may have a significant adverse effect on transaction fees, client activity and client investment portfolio gains and losses. Also, additional or modified regulations may adversely affect our wealth management operations. In addition, our wealth management operations, are dependent on a small number of established financial advisors, whose departure could result in the loss of a significant number of client accounts. A significant decline in fees and commissions or trading losses suffered in the investment portfolio could adversely affect our income and potentially require the contribution of additional capital to support our operations.

***Strong competition within our markets may significantly impact profitability.***

We compete with an ever-increasing array of financial service providers. See the section entitled "Competition" **of in Part I**. Item 1, "Business" of this Annual Report for additional competitor information. Competition from nationwide banks, as well as local institutions, continues to mount in our markets. To compete, we focus on quality customer service, making decisions at the local level, maintaining long-term customer relationships, building customer loyalty, and providing products and services designed to address the specific needs of customers. Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect growth and profitability.

***Market changes may adversely affect demand for our services and impact revenue, costs, and earnings.***

Channels for servicing our customers are evolving rapidly, with less reliance on traditional branch facilities, increased use of e-commerce channels, and demand for universal bankers and other relationship managers who can service multiple product lines. We have an ongoing process for evaluating the profitability of its branch system and other office and operational facilities. The identification of unprofitable operations and facilities can lead to restructuring charges and introduce the risk of disruptions to revenues and customer relationships. We compete with larger financial institutions who are rapidly evolving their service channels and escalating the costs of evolving the service process.

***Our business is concentrated in and largely dependent upon the continued growth and welfare of the general geographic markets in which we operate.***

Our operations are concentrated in Northern New England (and in particular, Maine, New Hampshire and Vermont). As a result, the Company's financial condition, results of operations and cash flows are significantly impacted by changes in the economic conditions in those areas.

Therefore, the Company's financial performance generally, and in particular, the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of collateral securing these loans, is highly dependent upon the business environment in the markets where the Company operates. The Company's success depends to a significant extent upon the business activity, population, income levels, deposits and real estate activity in these markets. Although the Company's clients' business and financial interests may extend well beyond these markets, adverse economic conditions that affect these markets could disproportionately reduce the Company's growth rate, affect the ability of the Company's clients to repay their loans to the Company, affect the value of collateral underlying loans and generally affect the Company's financial condition and results of operations. Because of the Company's geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets. For additional information on the Company's market area, see Part I, Item 1, "Business" of this Annual Report.

28 29

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[Table of Contents](#)

***Expansion, growth, and acquisitions could negatively impact earnings if not successful.***

We may grow organically both by geographic expansion and through business line expansion, as well as through acquisitions. Success of these activities depends on our ability to continue to maintain and develop an infrastructure appropriate to support and integrate such growth. Success may also depend on acceptance of the Bank by customers in these new markets and, in the case of expansion through acquisitions, these factors include the long-term recruitment and retention of key personnel and acquired customer relationships. Profitability depends on whether the marginal revenue generated in the new markets will offset the increased expenses of operating a larger entity, with more staff, more locations, and more product offerings. Failure to achieve any of these success factors may have a negative impact on our financial condition and results of operations.

***We may be adversely affected by continuous technological change.***

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon its ability to address the needs of customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional operational efficiencies.

The introduction of new products and services can entail significant time and resources. Our failure to manage risks and uncertainties associated with new products and services exposes us to enhanced risk of operational lapses which may result in the recognition of financial statement liabilities. Regulatory and internal control requirements, capital requirements, competitive alternatives, vendor relationships and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to our customers. Products and services relying on internet and mobile technologies may expose us to fraud and cybersecurity risks. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on our business and reputation.

***Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers.***

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. Our company and customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. Our company and customers may face cost increases, asset value reductions and operating process changes, among other impacts. The impact on our customers will likely vary depending on their specific attributes. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

***Factors associated with global climate change, including evolving and increasing regulations, increasing global concern and stakeholder scrutiny about climate change and extreme weather conditions could adversely affect our business, reputation, results of operations and financial position.***

There has been an increased focus from regulators and stakeholders on environmental, social, and governance ("ESG") matters. Our failure or perceived failure to achieve our ESG goals, maintain ESG practices, or comply with emerging ESG regulations that meet evolving regulatory or stakeholder expectations could adversely affect public perception of our business, employee morale or patient or stakeholder support, expend corporate resources, result in substantial costs and expenses, result in legal or regulatory proceedings against the Company and negatively impact our financial condition and results of operations. Damage to our reputation may reduce demand for our services and thus have an adverse effect on our future financial performance, as well as require additional resources to rebuild our reputation.

Global climate change also presents both immediate and long-term physical risks (such as extreme weather conditions) and risks associated with the transition to a low-carbon economy (such as regulatory or technology changes). These changes could result in, for example, closures of our banking offices and other facilities, and supply chain disruptions, as well as increased costs of products, commodities and energy (including utilities), and disruptions in our information systems, which in turn could negatively impact our business and results of operations. In addition, certain of our operations

30

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[Table of Contents](#)

and facilities are located in regions that may be disproportionately impacted by the physical risks of climate change (including hurricanes and flooding), and we face the risk of losses incurred as a result of physical damage to our facilities and business interruptions caused by such events. We maintain property insurance coverage to address the impact of physical damage to our facilities and for business interruption losses. However, such insurance coverage may be insufficient to cover all losses and we may experience a material, adverse effect on our results of operations that is not recoverable through our insurance policies. Additionally, if we experience a significant increase in climate-related events that result in material losses we may be unable to obtain similar levels of property insurance coverage in the future or at rates that are significantly higher than our current rates. Changes in consumer preferences and additional legislation and regulatory requirements, including those associated with the transition to a low-carbon economy, may increase costs associated with compliance, the operation of our facilities and supplies. Regulations limiting greenhouse gas emissions and energy inputs may also increase in coming years, which may adversely impact us through increased compliance costs for us and our suppliers and vendors.

***Pandemics, severe weather, natural disasters, acts of war or terrorism, and other external events could significantly impact our business and the business of our customers.***

Pandemics, including the continuing COVID-19 pandemic, severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. In particular, such events may have a particularly negative impact upon the business of customers who are engaged in the hospitality industry in our markets, which could have a direct negative impact on our business and results of operations. Further, work-from-home and other modified business practices may introduce additional operational risks, including cybersecurity and execution risks, which may result in inefficiencies or delays, and may affect our ability to, or the manner in which we, conduct our business activities.

**Legal, Regulatory and Compliance Risks**

29

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[Table of Contents](#)

***We are subject to extensive government regulation and supervision, which may interfere with the ability to conduct business and may negatively impact our financial results.***

Banking regulations are primarily intended to protect depositors' funds, the Federal Deposit Insurance Fund and the safety and soundness of the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we can offer, and/or limit the pricing we can charge on certain banking services, among other things. Compliance personnel and resources may increase costs of operations and adversely impact earnings.

***We are subject to possible claims and litigation pertaining to fiduciary responsibilities.***

From time to time, customers make claims and take legal action pertaining to our performance of fiduciary responsibilities. Whether customer claims and legal action related to our performance of fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect the market perception of us and products and services as well as impact customer demand for our products and services.

Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

***Fee revenues from overdraft protection programs constitute a significant portion of our noninterest income and may be subject to increased supervisory scrutiny.***

Revenues derived from transaction fees associated with overdraft protection programs offered to our customers represent a significant portion of its noninterest income. In response to recent increased congressional and regulatory scrutiny, and

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[Table of Contents](#)

in anticipation of enhanced supervision and enforcement of overdraft protection practices in the future, certain banking organizations have begun to modify their overdraft protection programs, including by discontinuing the imposition of overdraft transaction fees. These competitive pressures, as well as any adoption by the Bank's regulators of new rules or supervisory guidance or more aggressive examination and enforcement policies in respect of banks' overdraft protection practices, could cause it to modify programs and practices in ways that may have a negative impact on revenue and our earnings.

**General Risk Factors**

***Changes in accounting policies or in accounting standards could materially affect our results of operations, and financial condition.***

Accounting policies are fundamental to understanding our results of operations, and financial condition. Some of the accounting policies are critical because they require us to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. We may experience material losses if such estimates or assumptions underlying in our financial statements are incorrect.

From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes could materially impact how we report our results of operations and financial condition. New or revised standards could also require retroactive application, which could result in the restatement of our prior period financial statements in material amounts.

***Internal controls may become ineffective in preventing or detecting material errors.***

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not

absolute, assurances that the objectives of the controls are met. Any

30

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[Table of Contents](#)

failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, and financial condition.

***We may be unable to attract and retain key personnel.***

Our success depends, in large part, on its ability to attract and retain key personnel. Competition for qualified personnel in the financial services industry can be intense and we may not be able to hire or retain the key personnel. In addition, the Bank's rural geographic marketplace, combined with relatively expensive real estate purchase prices in the many tourist communities we serve, create additional risks for the our ability to attract and retain key personnel. The unexpected loss of key personnel could have an adverse impact on our business because of their skills, knowledge of the markets in which ~~the~~ we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 1C. CYBERSECURITY**

Cybersecurity threats pose a risk to the Company as crimes committed through or involving the internet. Examples of those threats are malware, phishing, hacking, denial of service attacks, stealing information, unauthorized intrusions into internal systems or the systems of third-party vendors that could adversely impact operations or damage reputations.

We utilize third party service providers to support and facilitate business and operational activities to achieve strategic goals. However, third parties may expose us and our customers to various risks. We have implemented a Vendor Risk Management ("VRM") framework, which provides the tools and practices utilized in the oversight of third-party service providers, with an objective to meet legal and regulatory obligations, contractual requirements, performance expectations,

32

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[Table of Contents](#)

and our own principles and values. For the 2023 period, there were no material incidents affecting the VRM framework or controls.

We have developed cybersecurity and data privacy programs designed to enable and safeguard the confidentiality, integrity and availability of our information systems and data by providing proactive security expertise and risk assessments, creating and maintaining a resilient and secure environment, and fostering a culture of security awareness and compliance throughout our organization. We maintain a robust Information Security Program that sets forth our commitment to the continual review and improvement of policies, processes, procedures, and

standards for evaluating electronic and physical methods of accessing, collecting, storing, using, transmitting, disposing, and protecting sensitive information, including customer information under guidelines established as part of the Gramm Leach-Biley Act (GLBA).

The Bank manages cybersecurity threats proactively and maintains robust controls to protect its critical systems and data by investing in secure, reliable and resilient technology infrastructure, fostering a culture of technology risk awareness and continuously improving its technology risk management practices. Our process for monitoring and mitigating cybersecurity risk is designed in conjunction with our overall Risk Management Policy and Information Security Program. One of the key aspects of these programs are various risk assessments that are used to identify industry and company-specific risks, measure control effectiveness, identify any gaps that need to be addressed, and linking our controls with applicable policies, standards and guidelines to ensure that responsible parties are aware of their obligations with respect to this program. Annually, we engage a third party to perform penetration testing and ongoing analysis to identify potential vulnerabilities and areas for additional enhancements as well as a full-scope independent audit of IT and Information Security processes.

All of our employees also have a responsibility to protect the privacy of Company and Bank confidential and proprietary information. They are required to undergo periodic information security awareness training to ensure a clear understanding of their roles in protecting information assets and to create a security-minded culture. Additionally, the Company carries out regular phishing simulation tests throughout the year to keep employees alert, spread awareness and ensure that employees have the knowledge and resources necessary to report suspicious activity.

The management of cybersecurity risks is ultimately the responsibility of Company management and is governed by the Board. They devote significant time and attention to the oversight of cybersecurity and information security risks. The Board through its BRC reviews monthly information technology and Information Security and Vendor Management reports that highlight key areas of focus and risk. The Board also reviews and approves the Information Security Program, the central program outlining cyber-security processes and controls annually and frequently receives presentations on and discusses cybersecurity and information security risks, industry trends and best practices.

We are subject to extensive federal and state regulation of customer privacy and the security of financial information. Our federal regulator, the FDIC, is part of the Federal Financial Institutions Examination Council (FFIEC), which publishes extensive guidelines and examination procedures that are used to review the security of financial institutions.

To date, we have not experienced a cybersecurity incident or data breach that has materially affected us or our business strategy, results of operations, or financial condition.

[Table of Contents](#)

**ITEM 2. PROPERTIES**

Our principal executive office is in a building located at 82 Main Street, Bar Harbor, Maine. We provide full-banking services at 53 locations throughout Maine, New Hampshire and Vermont, of which 34 are owned and 19 are leased. We also have one stand-alone drive-up window in Vermont. In addition to banking offices, we also have Operations Centers located in Ellsworth, Maine, and Newport, New Hampshire that house our operations and data processing centers. We have leased spaces in Hampden, Maine, Portland, Maine, Rockland, Maine and Manchester, New Hampshire where back office support for multiple lines of business and related functions are located. Additionally, we own a Wealth Management office located in Concord, New Hampshire. In the opinion of management, our physical properties are considered adequate to meet the needs of customers in the communities served.

**ITEM 3. LEGAL PROCEEDINGS**

We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition laws, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our consolidated results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

#### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

3134

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## [Table of Contents](#)

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED ~~SHAREHOLDER~~STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Market Information**

The common stock of the Company is traded on the NYSE American, under the trading symbol "BHB". As of ~~March 10, 2023~~ March 7, 2024, there were ~~15,124,451~~ 15,185,021 shares of Bar Harbor Bankshares common stock, par value \$2.00 per share, outstanding and approximately ~~1,428~~ 1,375 shareholders of record, as obtained through the Company's transfer agent.

Cash dividends declared and paid totaled ~~\$0.26~~ \$0.28 per share in the second, third and fourth quarters of ~~2022~~ 2023 and ~~\$0.24~~ \$0.26 per share in the first quarter of ~~2022~~ 2023. We currently expect that comparable cash dividends will continue to be paid in the future. However, no assurances can be given that any dividends will be declared or paid on the Company's common stock in the future, or, if declared and paid, the amount or frequency of those dividends. The ability of the Company and the Bank to pay dividends is restricted by certain laws and regulations, and the payment of dividends by the Company and the Bank is within the discretion of their respective boards of directors.

#### **Recent Sale of Unregistered Securities and Use of Proceeds from Registered Securities**

No unregistered equity securities were sold by the Company during the year ended ~~December 31, 2022~~ December 31, 2023.

On ~~June 23, 2022~~ May 22, 2023, the Board approved a 12-month plan to repurchase up to 5% of the Company's outstanding shares of common stock, representing ~~751,000~~ 756,000 shares. No shares were repurchased by the Company ~~in~~ during the fourth quarter of ~~2022~~ 2023 year ended December 31, 2023 and the maximum number of shares that may yet be purchased under the plan is ~~751,000~~ 756,000 shares.

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[Table of Contents](#)
**Common Stock Performance Graph**

The following graph illustrates the estimated yearly change in value of the cumulative total shareholder return on our common stock for each of the last five years. Total shareholder return is computed by taking the difference between the ending price of the common stock at the end of the previous year and the current year, plus any dividends paid divided by the ending price of the common stock at the end of the previous year. For purposes of comparison, the graph also matches our cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NYSE American Composite Index, and the S&P U.S. SmallCap Banks Index. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from **December 31, 2017** **December 31, 2018** to **December 31, 2022** **December 31, 2023**.



Graphic

Index	Period Ending					
	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Bar Harbor Bankshares	100.00	85.40	100.07	92.81	122.85	140.95
NYSE American Composite Index	100.00	88.23	100.34	95.60	141.85	174.66
S&P U.S. SmallCap Banks Index	100.00	83.44	104.69	95.08	132.36	116.69

Index	Period Ending					
	12/31/18	12/31/19	12/30/20	12/31/21	12/31/22	12/31/23
Bar Harbor Bankshares	100.00	117.15	108.68	143.81	165.04	157.69
NYSE American Composite Index	100.00	113.72	108.34	160.76	197.94	224.59
S&P U.S. SmallCap Banks Index	100.00	125.46	113.94	158.62	139.85	140.55

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[Table of Contents](#)
**ITEM 6. [RESERVED]**

[Reserved] Not applicable.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion is management's analysis to assist in the understanding and evaluation of the consolidated financial condition and results of operations of the Company. It should be read in conjunction with the consolidated financial statements and footnotes and selected financial data presented elsewhere in this Annual Report. Within the tables presented, certain columns and rows may not sum due to the use of rounded numbers for disclosure purposes. The detailed financial discussion that follows focuses on 2023 results compared to 2022. For a discussion of 2022 results compared to 2021. For a discussion of 2021, results compared to 2020, see the Company's Annual Report on Form 10-K for the year ended December 31, 2021 December 31, 2022.

**GENERAL**

The Company is a bank holding company headquartered in Maine, providing a broad array of banking and nonbanking products and services to businesses and consumers primarily within our three-state footprint. The Company's primary sources of revenue, through the Bank, are net interest income (predominantly from loans and investment securities) and noninterest income (principally fees and other revenue from financial services provided to customers or ancillary services tied to loans and deposits).

**ANNUAL PERFORMANCE SUMMARY**

*Earnings (For year ended December 31, 2022 December 31, 2023 compared to the same period of 2021, 2022)*

- Net income was \$43.6 million, \$44.9 million compared to \$43.6, an increase of 11% 3%, or 25% on a non-GAAP basis when excluding the accretion from Paycheck Protection Program ("PPP") loan fees. The increase is driven primarily due to a benefit to net interest income as our assets repriced to higher rates and efficiency measures on non-interest expense. rates. Diluted earnings per share was \$2.95, an increase of \$0.07 or 2%.
- Diluted earnings per share was \$2.88, an increase of \$0.27 or 11%. Diluted earnings per share included a \$0.01 and \$0.30 benefit from PPP loans in 2022 and 2021, respectively.
- Return on assets increased was 1.14% compared to 1.16% from 1.06%. Return on equity was 10.91% 10.88% compared to 9.50% 10.91%. Both ratios include the benefit of higher net income borrowing costs and lower average balances related to unrealized losses on securities as noted below under the "Financial Position" section.
- Net interest income was \$113.7 million \$117.7 million, an increase of 19% 4%. Net interest margin (NIM) was 3.36% 3.29%, an increase a decrease of 48 basis points from the same period in 2021 2022. The increase decrease is primarily due to the repricing of variable rate assets and continued loan growth, growth offset by higher borrowing costs and cost of interest-bearing liabilities.
- The provision for credit losses was an expense of \$2.9 million mainly due to loan growth compared to a net benefit of \$1.3 million reflecting improved economic forecasts. in both 2023 and 2022.
- Non-interest income was \$35.3 million \$35.8 million, down from \$42.3 million compared to \$35.3 million primarily due to a \$5.0 million decrease in mortgage banking \$699 thousand higher bank-owned life insurance ("BOLI") income and \$2.9 million related to one-time death benefits during the first quarter of gains on security sales in 2021 that did not reoccur in 2022. 2023.
- Non-interest expense was \$91.2 million \$93.5 million versus \$90.5 million \$91.3 million. Prior year included a \$2.9 million loss on extinguishment Salaries and benefits expense increased \$3.9 million to \$52.5 million in 2023 due to revaluation of debt. post-retirement plan liabilities, higher stock compensation expense and decrease in deferred loan origination costs.
- Efficiency ratio improved to 59% 58.7% in 2023 from 61%, excluding the impact of PPP loans it improved 59% from 64%. The improvement 59.3% in the ratio showcases our displaced approach to expense management. 2022.

**Financial Position**(For year ended December 31, 2023 compared to the same period of 2022)

- Total assets increased \$61.1 million to \$4.0 billion mainly due to loan growth offset by available for sale security pay-downs.

34 37

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[Table of Contents](#)

**Financial Position**(For year ended December 31, 2022 compared to the same period of 2021)

- Total assets increased \$200.6 million to \$3.9 billion mainly due to strong loan growth offset in part by unfavorable fair value adjustments on our securities portfolio.
- Cash and cash equivalents decreased increased to \$92.3 million \$94.8 million, from \$250.4 million principally \$92.3 million primarily due to self-funding loan growth in the first half of 2022. excess cash available generated from operations.
- Securities Total securities were \$574.4 million \$547.4 million, or 15% 14% of total assets, compared to \$625.7 million \$574.4 million, or 16% 15% of total assets. Net unrealized losses were \$71.8 million \$62.4 million, or 12% 11% of gross securities, compared with a gain of \$2.6 million \$71.8 million, or 0.4% 12% of gross securities as fixed rate securities continued to reprice to higher interest rates. All securities are classified as available for sale preserving capital flexibility.
- Total loans grew 15% 3% year-over-year as commercial loans increased 21% 6%. Loan growth The increase was generated across all the net result of our footprint while adhering the strategy to selective criteria grow commercial construction and only experienced operators. We believe that the economy in Northern New England continues to be strong despite pressures from the broader economy. commercial real estate owner-occupied segments.
- The ratio of the allowance for credit losses to total loans was 0.94%, increasing from 0.89%, decreasing from 0.90%, which reflects solid credit quality, reflecting more refined economic forecasting, especially in the national unemployment figures, increase in specific reserves, and loan portfolio growth. Net charge-offs continue increased to be insignificant \$590 thousand in 2023 compared to a net recovery of \$238 thousand in 2022 primarily driven by one non-accrual commercial and each credit metric improved during the year industrial ("C& loan").
- While deposit Deposit balances were consistent with 2021, we did see a decline during the fourth quarter of 2022 primarily increased 3% year-over-year due to consumer's migration to brokerage accounts and higher yielding time deposits and an increase in institutional accounts with low activity, which tend to be most rate sensitive. We continue to work with each customer on rates rather than make sweeping movements, which allows us to focus on expanding those relationships as we review individual requests. brokered deposits.
- Borrowings increased decreased to \$394.2 million \$331.5 million from \$178.5 million as short-term funding was used \$394.3 million primarily due to grow loans in the second half of 2022. excess cash available generated from operations.
- Total book value per share was \$26.09 \$28.48 compared to \$28.27, \$26.09. Net unrealized security losses reduced book value per share by \$3.87. \$3.14. Tangible book value per share excluding net unrealized security losses (non-GAAP) increased 9% on an annualized basis on net income offset by dividends to shareholders.

35 38

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[Table of Contents](#)

**SELECTED FINANCIAL DATA**

(in millions, except ratios and share data)	At or For the Years Ended December 31,			At or For the Years Ended December 31,		
	2022	2021	2020	2023	2022	2021
<b>Financial Condition Data:</b>						
Total assets	\$ 3,910	\$ 3,709	\$ 3,724	\$ 3,971	\$ 3,910	\$ 3,709
Total earning assets <sup>(1)</sup>	3,601	3,377	3,371	3,664	3,601	3,377
Total investments	574	626	599	547	574	626
Total loans	2,903	2,532	2,563	2,999	2,903	2,532
Allowance for credit losses	26	23	19	28	26	23
Total goodwill and intangible assets	125	126	127	124	125	126
Total deposits	3,043	3,049	2,906	3,141	3,043	3,049
Total borrowings	394	179	336	332	394	179
Total shareholders' equity	393	424	407	432	393	424
<b>Operating Data:</b>						
Total interest and dividend income	\$ 127	\$ 111	\$ 126	\$ 174	\$ 127	\$ 111
Total interest expense	13	15	27	57	13	15
Net interest income	114	96	99	118	114	96
Non-interest income	35	42	43	36	35	42
Net revenue <sup>(2)</sup>	149	138	142	154	149	138
Provision for credit losses	3	(1)	6	3	3	(1)
Total non-interest expense	91	91	95	93	91	91
Income tax expense	11	9	8	12	11	9
Net income	44	39	33	45	44	39
<b>Ratios and Other Data:</b>						
<b>Per Common Share Data</b>						
Basic earnings	\$ 2.90	\$ 2.63	\$ 2.18	\$ 2.96	\$ 2.90	\$ 2.63
Diluted earnings	2.88	2.61	2.18	2.95	2.88	2.61
Total book value <sup>(5)</sup>	26.09	28.27	27.29	28.48	26.09	28.27
Dividends	1.02	0.94	0.88	1.10	1.02	0.94
Common stock price:						
High	33.11	32.94	25.55	32.42	33.11	32.94
Low	24.00	21.26	13.05	19.55	24.00	21.26
Close	32.04	28.93	22.59	29.36	32.04	28.93
<b>Weighted average common shares outstanding (in thousands):</b>						
Basic	15,040	14,969	15,246	15,142	15,040	14,969
Diluted	15,112	15,045	15,272	15,195	15,112	15,045

**3639**
[Table of Contents](#)

(in millions, except ratios and share data)	At or For the Years Ended December 31,			At or For the Years Ended December 31,		
	2022	2021	2020	2023	2022	2021
<b>Performance Ratios:(4)</b>						
Return on assets	1.16 %	1.06 %	0.88 %	1.14 %	1.16 %	1.06 %
Return on equity(5)	10.91	9.50	8.29	10.88	10.91	9.50
Interest rate spread	3.24	2.74	2.92	2.86	3.24	2.74
Net interest margin(5)	3.36	2.88	2.97	3.29	3.36	2.88
Dividend payout ratio	35.20	35.81	40.36	36.93	35.20	35.81
<b>Organic Growth Ratios:</b>						
Total commercial loans	19 %	7 %	17 %	6 %	19 %	7 %
Total loans	15	(1)	(3)	3	15	(1)
Total deposits	(0)	5	8	3	(0)	5
<b>Asset Quality and Condition Ratios:</b>						
Non-accruing loans/total loans	0.23 %	0.40 %	0.48 %	0.18 %	0.23 %	0.40 %
Net (recoveries) charge-offs/average loans	(0.01)	0.01	0.07	—	(0.01)	0.01
Allowance for credit losses/total loans	0.89	0.90	0.74	0.94	0.89	0.90
Loans/deposits	95	83	88	95	95	83
<b>Capital Ratios:</b>						
Tier 1 capital to average assets - Company	9.21 %	8.66 %	8.12 %	9.70 %	9.21 %	8.66 %
Tier 1 capital to risk-weighted assets - Company	11.02	11.90	11.28	11.96	11.02	11.90
Tier 1 capital to average assets - Bank	10.10	9.62	9.02	10.50	10.10	9.62
Tier 1 capital to risk-weighted assets - Bank	12.67	13.22	12.52	12.96	12.67	13.22
Shareholders equity to total assets(5)	10.06	11.43	11.04	10.88	10.06	11.43

(1) Earning assets includes non-accruing loans and interest-bearing deposits with other banks. Securities are valued at amortized cost.

(2) Net revenue is defined as net interest income plus non-interest income.

(3) All performance ratios are based on average balance sheet amounts, where applicable.

(4) Fully taxable equivalent considers the impact of tax advantaged securities and loans.

(5) Non-GAAP financial measure. Refer to the Reconciliation of Non-GAAP Financial Measures for additional information.

3740

#### [Table of Contents](#)

#### AVERAGE BALANCES AND AVERAGE YIELDS/RATES

The following table presents average balances and average rates and yields on a fully taxable equivalent basis for the periods included:

(in millions, except ratios)	Year Ended December 31,						Year Ended December								
	2022			2021			2020			2023			2022		
	Average Balance	Interest (3)	Yield/ Rate(3)	Average Balance	Interest (3)	Yield/ Rate(3)	Average Balance	Interest (3)	Yield/ Rate(3)	Average Balance	Interest (3)	Yield/ Rate(3)	Average Balance	Interest (3)	Yield/ Rate
<b>Assets</b>															
Interest-earning deposits with other banks	\$ 72	1	1.07 %	\$ 219	\$ —	0.15 %	\$ 89	\$ —	0.15 %	\$ 37	\$ 2	5.33 %	\$ 72	1	1.07

Securities available for sale and FHLB stock(2)(3)	630	19	2.99	621	16	2.63	625	20	3.20	610	26	3.88	630	19	2.99
<b>Loans:</b>															
Commercial real estate	1,340	55	4.13	1,210	40	3.34	993	40	4.02	1,537	81	5.27	1,340	55	4.13
Commercial and industrial(3)	410	17	4.25	348	14	3.98	379	21	5.62	437	28	6.39	410	17	4.25
Paycheck protection program	1	—	17.27	51	6	11.93	109	5	4.19	—	—	—	1	—	17.27
Residential	873	31	3.55	825	32	3.86	1,078	41	3.78	905	35	3.82	873	31	3.55
Consumer	100	4	4.41	99	4	3.77	124	5	4.03	97	7	6.75	100	4	4.41
Total loans (1)	2,724	107	3.98	2,533	96	3.78	2,683	112	4.16	2,976	151	5.04	2,724	107	3.98
Total earning assets	3,426	127	3.73 %	3,373	112	3.33 %	3,397	132	3.87 %	3,623	179	4.85 %	3,426	127	3.73
Cash and due from banks	37			35			27			34			37		
Allowance for credit losses	(24)			(23)			(17)			(27)			(24)		
Other assets	308			333			351			304			308		
<b>Total assets</b>	<b>\$3,747</b>			<b>\$3,718</b>			<b>\$3,758</b>			<b>\$3,934</b>			<b>\$3,747</b>		
<b>Liabilities</b>															
NOW	\$ 907	1	0.16 %	\$ 949	\$ 1	0.11 %	\$ 643	\$ 1	0.20 %	\$ 900	\$ 9	0.98 %	\$ 907	1	0.16
Savings	658	1	0.10	629	1	0.90	467	1	0.16	595	2	0.39	658	1	0.10
Money market	466	3	0.63	390	1	0.12	396	2	0.42	407	10	2.48	466	3	0.63
Time deposits	366	2	0.61	425	6	1.51	796	14	1.80	533	17	3.19	366	2	0.61
Total interest bearing deposits	2,397	7	0.31	2,393	9	0.36	2,302	18	0.78	2,435	38	1.57	2,397	7	0.31
Borrowings	203	6	2.71	175	7	3.82	507	9	1.75	401	18	4.56	203	6	2.71
Total interest bearing liabilities	2,600	13	0.49 %	2,568	16	0.59 %	2,809	27	0.96 %	2,836	56	1.99 %	2,600	13	0.49
Non-interest bearing demand deposits	679			668			481			619			679		
Other liabilities	69			68			67			67			69		
<b>Total liabilities</b>	<b>3,348</b>			<b>3,304</b>			<b>3,357</b>			<b>3,522</b>			<b>3,348</b>		
<b>Total shareholders' equity</b>	<b>399</b>			<b>414</b>			<b>401</b>			<b>412</b>			<b>399</b>		
<b>Total liabilities and shareholders' equity</b>	<b>\$3,747</b>			<b>\$3,718</b>			<b>\$3,758</b>			<b>\$3,934</b>			<b>\$3,747</b>		
Net interest income	\$ 114			\$ 96			\$ 105								
Net interest spread			3.24 %			2.74 %			2.91 %			2.86 %			3.24
Net interest margin			3.36			2.88			2.97			3.29			3.36
Adjusted net interest margin(4)			3.35			2.76			2.93						

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(1) The average balances of loans include non-accrual loans and unamortized deferred fees and costs.  
 (2) The average balance for securities is based on amortized cost.  
 (3) Fully taxable equivalent considers the impact of tax-advantaged securities and loans.  
 (4) **Adjusted net interest margin excludes PPP loans.**

**RATE/VOLUME ANALYSIS**

The following table presents the effects of rate and volume changes on the fully taxable equivalent net interest income. Tax exempt interest revenue is shown on a tax-equivalent basis for proper comparison. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (1) changes in rate (change in rate multiplied by prior year volume), (2) changes in volume (change in volume multiplied by prior year rate), and (3) changes in volume/rate (change in rate multiplied by change in volume) have been allocated proportionately based on the absolute value of the change due to the rate and the change due to volume.

(in thousands)	2022 Compared with 2021			2021 Compared with 2020			2023 Compared with 2022			2022 Compared with 2021		
	Increases (Decreases) due to			Increases (Decreases) due to			Increases (Decreases) due to			Increases (Decreases) due to		
	Rate	Volume	Net	Rate	Volume	Net	Rate	Volume	Net	Rate	Volume	Net
Interest income:												
Interest-earning deposits with other banks	\$ 660	\$ (224)	\$ 436	\$ 11	\$ 191	\$ 202	\$ 1,595	\$ (369)	\$ 1,226	\$ 660	\$ (224)	\$ 436
Securities available for sale and FHLB stock	2,274	233	2,507	(3,560)	(139)	(3,699)	5,424	(575)	4,849	2,274	233	2,507
Loans:												
Commercial real estate	10,614	4,340	14,954	(8,244)	8,748	504	17,630	8,110	25,740	10,614	4,340	14,954
Commercial and industrial	75	3,448	3,523	(5,712)	(1,752)	(7,464)	9,360	1,168	10,528	75	3,448	3,523
Paycheck protection program	114	(5,891)	(5,777)	3,919	(2,450)	1,469	—	(223)	(223)	114	(5,891)	(5,777)
Residential	(2,662)	1,836	(826)	647	(9,566)	(8,919)	2,376	1,142	3,518	(2,662)	1,836	(826)
Consumer	644	43	687	(263)	(1,011)	(1,274)	2,280	(109)	2,171	644	43	687
Total loans	8,785	3,776	12,561	(9,653)	(6,031)	(15,684)	31,646	10,088	41,734	8,785	3,776	12,561
Total interest income	\$11,719	\$ 3,785	\$15,504	\$ (13,202)	\$ (5,979)	\$ (19,181)	\$38,665	\$ 9,144	\$47,809	\$11,719	\$ 3,785	\$15,504
Interest expense:												

<b>Deposits:</b>												
NOW	\$ 466	\$ (48)	\$ 418	\$ (842)	\$ 617	\$ (225)	\$ 7,342	\$ (12)	\$ 7,330	\$ 466	\$ (48)	\$ 418
Savings	101	25	126	(452)	262	(190)	1,707	(66)	1,641	101	25	126
Money market	2,368	93	2,461	(1,148)	(23)	(1,171)	7,517	(376)	7,141	2,368	93	2,461
Time deposits	(3,318)	(886)	(4,204)	(1,230)	(6,685)	(7,915)	13,761	1,015	14,776	(3,318)	(886)	(4,204)
Total deposits	(383)	(816)	(1,199)	(3,672)	(5,829)	(9,501)	30,327	561	30,888	(383)	(816)	(1,199)
Borrowings	(2,249)	1,062	(1,187)	3,619	(5,812)	(2,193)	7,406	5,368	12,774	(2,249)	1,062	(1,187)
Total interest expense	\$ (2,632)	\$ 246	\$ (2,386)	\$ (53)	\$ (11,641)	\$ (11,694)	\$37,733	\$ 5,929	\$43,662	\$ (2,632)	\$ 246	\$ (2,386)
Change in net interest income	<u>\$14,351</u>	<u>\$ 3,539</u>	<u>\$17,890</u>	<u>\$ (13,149)</u>	<u>\$ 5,662</u>	<u>\$ (7,487)</u>	<u>\$ 932</u>	<u>\$ 3,215</u>	<u>\$ 4,147</u>	<u>\$14,351</u>	<u>\$ 3,539</u>	<u>\$17,890</u>

3942

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#### [Table of Contents](#)

#### NON-GAAP FINANCIAL MEASURES

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America ("GAAP") and the prevailing practices in the financial services industry. However, we also evaluate our performance by reference to certain additional financial measures discussed in this Annual Report that we identify as being "non-GAAP financial measures." In accordance with SEC rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

These non-GAAP measures are intended to provide the reader with additional supplemental perspectives on operating results, performance trends, and financial condition. Non-GAAP financial measures are not a substitute for GAAP measures; they should be read and used in conjunction with the Company's GAAP financial information. Because non-GAAP financial measures presented in this Annual Report are not measurements determined in accordance with GAAP and are susceptible to varying calculations, these non-GAAP financial measures, as presented, may not be comparable to other similarly titled measures presented by other companies. A reconciliation of non-GAAP financial measures to GAAP measures is provided herein. In all cases, it should be understood that non-GAAP measures do not depict amounts that accrue directly to the benefit of shareholders. An item which management excludes when computing non-GAAP financial measures can be of substantial importance to the Company's results for any particular quarter or year. Each non-GAAP measure used by the Company in this Annual Report as supplemental financial data should be considered in conjunction with the Company's GAAP financial information. The Company utilizes these non-GAAP financial measures for purposes of measuring our performance against our peer group and other financial institutions and analyzing our internal performance. We also believe these non-GAAP financial measures help investors better understand the Company's operating performance and trends and allow for better performance comparisons to other banks. In addition, these non-GAAP financial measures remove the impact of unusual items that may obscure trends in the Company's underlying performance.

The non-GAAP financial measures that we discuss in this Annual Report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Annual Report may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the

non-GAAP financial measures we have discussed in this Annual Report when comparing such non-GAAP financial measures. The following reconciliation table provides a more detailed analysis of these, and reconciliation for, each of non-GAAP financial measures.

[Table of Contents](#)

**RECONCILIATION OF NON-GAAP FINANCIAL MEASURES**

The following table summarizes the reconciliation of non-GAAP items for the time periods presented:

(in thousands)	At or For The Years Ended December 31,			Year Ended December 31,			
	Calculations	2022	2021	2020	Calculations	2023	2022
Net income	\$ 43,557	\$ 39,299	\$ 33,244		\$ 44,852	\$ 43,557	\$ 39,299
Non-recurring items:							
Gain on sale of securities, net	(53)	(2,870)	(5,445)		(34)	(53)	(2,870)
Gain on sale of premises and equipment, net	10	378	(32)		182	10	378
Gain on other real estate owned	—	—	355				
Loss on debt extinguishment	—	2,851	1,351		—	—	2,851
Acquisition, conversion and other expenses	266	1,667	5,801		283	266	1,667
Income tax expense (1)	(51)	(479)	(481)		(104)	(51)	(479)
Total non-recurring items	172	1,547	1,549		327	172	1,547
Total adjusted income(2)	(A) \$ 43,729	\$ 40,846	\$ 34,793		(A) \$ 45,179	\$ 43,729	\$ 40,846
Net interest income	(B) \$ 113,681	\$ 95,573	\$ 99,180		(B) \$ 117,675	\$ 113,681	\$ 95,573
Plus: Non-interest income	35,321	42,261	42,956		35,829	35,321	42,261
Total Revenue	149,002	137,834	142,136		153,504	149,002	137,834
Gain on sale of securities, net	(53)	(2,870)	(5,445)		(34)	(53)	(2,870)
Total adjusted revenue(2)	(C) \$ 148,949	\$ 134,964	\$ 136,691		(C) \$ 153,470	\$ 148,949	\$ 134,964
Total non-interest expense	\$ 91,253	\$ 90,508	\$ 94,860		\$ 93,479	\$ 91,253	\$ 90,508
Non-recurring expenses:							
Gain on sale of premises and equipment, net	(10)	(378)	32		(182)	(10)	(378)
Gain on other real estate owned	—	—	(355)				
Loss on debt extinguishment	—	(2,851)	(1,351)		—	—	(2,851)
Acquisition, conversion and other expenses	(266)	(1,667)	(5,801)		(283)	(266)	(1,667)
Total non-recurring expenses	(276)	(4,896)	(7,475)		(465)	(276)	(4,896)
Adjusted non-interest expense(2)	(D) \$ 90,977	\$ 85,612	\$ 87,385		(D) \$ 93,014	\$ 90,977	\$ 85,612
Total revenue	149,002	137,834	142,136		153,504	149,002	137,834
Total non-interest expense	91,253	90,508	94,860		93,479	91,253	90,508
Pre-tax, pre-provision net revenue	\$ 57,749	\$ 47,326	\$ 47,276		\$ 60,025	\$ 57,749	\$ 47,326

Adjusted revenue <sup>(2)</sup>	148,949	134,964	136,691		153,470	148,949	134,964	
Adjusted non-interest expense <sup>(2)</sup>	90,977	85,612	87,385		93,014	90,977	85,612	
Adjusted pre-tax, pre-provision net revenue <sup>(2)</sup>	\$ 57,972	\$ 49,352	\$ 49,306	(U)	\$ 60,456	\$ 57,972	\$ 49,352	
<b>(in millions)</b>								
Average earning assets	(E)	\$ 3,425	\$ 3,373	\$ 3,397	(E)	\$ 3,623	\$ 3,425	\$ 3,373
Average paycheck protection program (PPP) loans	(R)	1	51	109	(R)	—	1	51
Average interest-bearing deposits with other banks	(U)	72	219	89				
Average earning assets, excluding PPP loans	(S)	3,424	3,103	3,199	(S)	3,623	3,424	3,103
Average assets	(F)	3,747	3,718	3,758	(F)	3,934	3,747	3,718
Average shareholders' equity	(G)	399	414	401	(G)	412	399	414
Average tangible shareholders' equity <sup>(2)(3)</sup>	(H)	273	288	273	(H)	288	273	288
Tangible shareholders' equity, period-end <sup>(2)(3)</sup>	(I)	268	298	284	(I)	308	268	298
Tangible assets, period-end <sup>(2)(3)</sup>	(J)	3,784	3,583	3,598	(J)	3,847	3,784	3,583

4144

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[Table of Contents](#)

	At or For The Years Ended December 31,			Year Ended December 31,				
	Calculations	2022	2021	2020	Calculations	2023	2022	2021
<b>(in thousands)</b>								
Common shares outstanding, period-end	(K)	15,083	15,001	14,916	(K)	15,172	15,083	15,001
Average diluted shares outstanding	(L)	15,112	15,045	15,272	(L)	15,195	15,112	15,045
Adjusted earnings per share, diluted <sup>(2)</sup>	(A/L)	\$ 2.89	\$ 2.72	\$ 2.28	(A/L)	\$ 2.95	\$ 2.89	\$ 2.72
Tangible book value per share, period-end <sup>(2)</sup>	(I/K)	17.78	19.86	18.77	(I/K)	20.28	17.78	19.86
Securities adjustment, net of tax <sup>(1)</sup>	(M)	(55,246)	1,985	10,023	(M)	(47,649)	(55,246)	1,985
Tangible book value per share, excluding securities adjustment <sup>(2)</sup>	(I+M)/K	21.44	19.73	18.09	(I+M)/K	23.42	21.44	19.73
Total tangible shareholders' equity/total tangible assets <sup>(2)</sup>	(I/J)	7.09	8.32	7.78	(I/J)	8.00	7.09	8.32
<b>Performance ratios<sup>(5)</sup></b>								
Return on assets		1.16 %	1.06 %	0.88 %		1.14 %	1.16 %	1.06 %
Adjusted return on assets <sup>(2)</sup>	(A/F)	1.17	1.10	0.93				

Core return on assets(2)					(A/F)	1.15	1.17	1.10
Pre-tax, pre-provision return on assets		1.54	1.27	1.26		1.53	1.54	1.27
Adjusted pre-tax, pre-provision return on assets(2)	(U/F)	1.49	1.33	1.31	(U/F)	1.54	1.49	1.33
Return on equity		10.91	9.50	8.29		10.88	10.91	9.50
Adjusted return on equity(2)	(A/G)	10.96	9.87	8.68				
Core return on equity(2)					(A/G)	10.96	10.96	9.87
Return on tangible equity		16.20	13.92	12.45		15.84	16.20	13.92
Adjusted return on tangible equity(1)(2)	(A+Q)/H	16.26	14.46	13.02	(A+Q)/H	15.96	16.26	14.46
Efficiency ratio(1)(2)(6)	(D-O-Q)/(C+N)	59.26	61.29	61.71	(D-O-Q)/(C+N)	58.67	59.26	61.29
Net interest margin	(B+P)/E	3.36	2.88	2.97	(B+P)/E	3.29	3.36	2.88
Adjusted net interest margin(2)	(B+P-T)/S	3.35	2.93	2.76				
<b>Supplementary data (in thousands)</b>								
Taxable equivalent adjustment for efficiency ratio	(N)	\$ 2,020	\$ 2,330	\$ 2,477	(N)	\$ 2,392	\$ 2,020	\$ 2,330
Franchise taxes included in non-interest expense	(O)	583	528	477	(O)	638	583	528
Tax equivalent adjustment for net interest margin	(P)	1,398	1,653	1,853	(P)	1,550	1,398	1,653
Intangible amortization	(Q)	932	940	1,024	(Q)	932	932	940
Interest and fees on PPP loans	(T)	223	6,039	4,569	(T)	—	223	6,039
Interest and fees on interest-earning deposits with other banks	(V)	769	333	131				

(1) 2023 assumes a marginal tax rate of 24.01% for the fourth quarter and 23.80% for the first three quarters.

2022 assumes a marginal tax rate of 23.53% for the fourth quarter and 23.41% for the first three quarters. 2021 assumes a marginal tax rate of 23.41% for the fourth quarter and 23.71% for the first three quarters.

2020 assumes a marginal tax rate of 23.71% for the fourth quarter and 23.87% for the first three quarters.

(2) Non-GAAP financial measure.

(3) Tangible shareholders' equity is computed by taking total shareholders' equity less the intangible assets at period-end. Tangible assets are computed by taking total assets less the intangible assets at period-end.

(4) Securities adjustment, net of tax represents the total unrealized (loss) gain on securities recorded on the Company's consolidated balance sheets within total common shareholders' equity.

(5) All performance ratios are based on average balance sheet amounts, where applicable.

(6) Efficiency ratio is computed by using adjusted non-interest expense net of franchise taxes and intangible amortization divided by adjusted revenue tax effected for tax-advantaged assets. Adjusted net interest margin excludes PPP loans and interest-earning deposits with other banks.

4245

## Table of Contents

### COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2022 2023 AND 2021 2022

#### Cash and cash equivalents

Total cash and cash equivalents at December 31, 2022 December 31, 2023 were \$92.3 million \$94.8 million, compared to \$250.3 million \$92.3 million at December 31, 2021 December 31, 2022. Interest-earning cash held with other banks totaled \$52.6 million at year-end 2023 compared to \$52.4 million at year-end 2022 compared to \$216.9 million at year end 2021 carrying a yield of 5.33% in 2023 versus 1.07% in 2022 versus 0.15% in 2021. The decrease in cash reflects loan growth on relatively flat deposit balances on a year-over-year basis, 2022.

## Securities

Securities totaled \$547.4 million at year-end 2023 and \$574.4 million at year-end 2022 and \$625.7 million at year-end 2021. During 2022, security purchases totaled \$109.0 million and were offset by \$7.1 million of sales and \$73.7 million of maturities, calls and pay-downs of amortizing securities. There were \$11.0 million of purchases and \$3.5 million in sales of FHLB stock during the year. Fair value adjustments decreased the security portfolio by \$71.8 million in 2022 compared to a \$2.8 million unrealized gain in 2021. Unrealized gains shifted to loss position in 2022 due to changes in the long-term treasury yield curve. The weighted average yield of the securities portfolio was 2.99% as of December 31, 2022 compared to 2.63% at year-end 2021. At the end of 2023, our securities portfolio had an average life of 8.7 years with an effective duration of 4.8 compared to an average life of 9.4 years with an effective duration of 5.0 compared to an average life of 5.3 years with an effective duration of 4.2 years at the end of 2021. The extension of duration during 2022 was driven by the increase in rates. All securities remain classified as available for sale to provide flexibility in loan funding and management of our cost of funds.

## Loans

Loans increased by \$370.8 million from year-end 2021 to 2022 or 15%. The increase was the net result of a function of the strategy to grow tight credit markets and the rising interest rate environment in 2023 that limited commercial portfolios, loan refinancing activity. Total commercial loans were \$1.8 billion, growing 6% in 2023 and 19% in 2022 and 10% in 2021 when excluding PPP loans, which was driven mostly from new relationships primarily to commercial real estate fixed-rate products. Total residential loans increased 3% or \$25.5 million from year-end 2021, as we placed more originations on the balance sheet instead of selling into 2022, due to lower demand for prevailing mortgage rates and strategy to sell production to the secondary market. Residential loan origination volume in Home Equity lines decreased 4% or \$3.2 million from year-end 2022 is significantly down as compared due to the respective period run-off of 2021 on lower refinancing activity due to increasing market rates. balances associated with the repricing of home equity lines of credit.

## Allowance for Credit Losses

The ACL was \$25.9 million at the end of 2022 compared to \$22.7 million at year-end 2021. The increase is primarily due to more refined economic forecasting, especially in the national unemployment figures and in commercial real estate prices, and loan portfolio growth. Non-accruing loans decreased \$1 million to \$6.5 million or 0.23% of total loans at the end of 2022 from \$10.2 million or 0.40% of total loans at year-end 2021. The ratio of accruing past due loans to total loans improved to 0.09% of total loans from 0.32%. Total delinquent and non-accruing loans as percentage of total loans improved to 0.32% from 0.72%. Net charge-offs continue to be historically low with \$626 thousand in 2023 compared to a net recovery of \$238 thousand in 2022 compared to a net charge-off primarily driven by the resolution of \$209 thousand in 2021, one non-accruing C&I loan.

## Other Assets

Total other assets increased \$47.8 million to \$366 million at December 31, 2022 compared to \$318 million as of December 31, 2021. The increase is primarily attributed to a \$10.1 million increase in partnership investments, and a \$16.2 million increase in the asset position of derivative customer loan swaps and hedging instruments. \$2.2 million decrease in interest rate swaps on wholesale funding. Other intangible assets decreased \$932 thousand from 2022 driven by amortization. Deferred tax assets, net, increased \$18.9 million as of December 31, 2022 compared to 2021 driven by the unrealized loss position in the securities available for sale portfolio. Cash surrender value of Bank Owned Life insurance decreased \$1.2 million due to settlement of one-time death benefits that occurred in the first quarter of 2023.

## Deposits and Borrowings

Total deposits increased \$97.8 million to \$3.1 billion at the end of 2023 compared to \$3.0 billion at the end of 2022 and 2021. Non-maturity deposits increased \$97.0 million to \$279.1 million in 2023, or 4% due to growth in new consumer's migration to brokerage accounts and higher yielding Time deposits. 4,638 non-maturity deposit accounts with over 2,460 new accounts opened. customers were opened in 2023. Time deposits decreased \$102.1 million to \$376.8 million at year-end 2023 versus \$425.5 million in 2021. \$178 million of brokered deposits matured in 2021 and were not replaced due to excess liquidity increased \$204.5 million. Retail time deposits decreased \$63.0 million to \$172.4 million as customers moved funds to transactional accounts upon contractual maturity. from non-maturity deposits into higher yielding alternatives. Our deposit composition at year-end 2023 and 2022 was 47% commercial customers and 53% consumer customers. Total borrowings increased by \$215.6 million decreased \$62.7 million to \$271 million at December 31, 2023 compared to \$334 million as of December 31, 2022 primarily due to funding loan growth opportunities, excess cash available generated from operations.

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[Table of Contents](#)
**Derivative Financial Instruments and Other Liabilities**

Other liabilities totaled \$78.7 million \$66.2 million at the end of 2022 2023 compared to \$58.0 million \$78.7 million as of December 31, 2021 December 31, 2022. The \$20.7 million increase \$12.5 million decrease primarily reflects a \$10.1 million increase \$10.0 million decrease in capital commitments on limited partnership investments, a

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[Table of Contents](#)

\$6.4 million \$5.2 million net increase decrease in customer loan swaps, and a \$4.2 million \$1.5 million variable rate loan hedge decrease offset by \$3.5 million increase due to higher in brokered CD and a \$581 thousand increase in CD interest rates compared to 2021 payable. The net fair value of all derivatives was an asset of \$4.8 million \$3.2 million at the end of 2022 2023 compared to a \$1.1 million liability \$4.8 million asset at year-end 2021, 2022. The increase decrease in net derivative fair values reflects the rise in slowing of rising long-term interest rates. Unused credit lines grew The reserve for unfunded commitments remained flat at the end of 2022 increasing reserves by \$1.7 million 2023 at \$3.9 million, which are also recorded in other liabilities.

**Equity**

Total equity was \$432.1 million at year-end 2023, compared with \$393.5 million at year-end 2022, compared with \$424.1 million at year-end 2021, 2022. Book value per share was \$26.09 \$28.48 as of December 31, 2022 December 31, 2023 compared with \$28.27 \$26.09 at December 31, 2021 December 31, 2022. Equity included net unrealized losses on securities derivative and pension revaluations, adjustments, net of tax, totaling a \$58.3 million \$47.6 million loss at the end of 2022 2023 compared to a \$2.3 million gain \$55.3 million loss at year-end 2021, 2022.

During 2022 2023 and 2021, 2022, the Company declared and distributed regular cash dividends on its common stock in the aggregate amounts of \$16.6 million compared to \$15.3 million, respectively. The Company's 2022 2023 dividend payout ratio amounted to 35% 37%, compared with 36% 35% in 2021, 2022. Total cash dividends paid in 2022 2023 was \$1.02 \$1.10 per common share of common stock, compared with \$0.88 \$1.02 per share of common stock in 2021, 2022.

The Company and the Bank remained well-capitalized under regulatory guidelines at period end as further described in Note 12 – Shareholders' Equity and Earnings Per Common Share on the Consolidated Financial Statements.

**COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2022 2023 AND 2021 2022**
**Net Interest Income**

Net interest income for 2022 2023 was \$113.7 million \$117.7 million compared with \$95.6 million \$113.7 million in 2021, 2022. The net interest margin was 3.36% 3.29% in 2022 2023 compared to 2.88% 3.35% in the prior year. The 2022 adjusted net interest margin (non-GAAP measure), which excludes PPP loans was 3.35% versus 2.93% in 2021. Acceleration of PPP loan fee amortization due to forgiveness contributed 1 basis point to NIM in 2022 and 14 basis points in the same period of 2021. Interest-earning cash balances, held mostly at the Federal Reserve Bank, reduced NIM by 52 basis points in the year and 195 basis points in 2021, 2022. The yield on earning assets totaled 3.73% 4.85% compared to 3.33% 3.73% in 2021. Excluding the impact of PPP and excess cash, the yield on earning assets totaled 3.79% and 3.42% for the same periods, 2022. The yield on loans was 5.04% in 2023 and 3.98% in 2022 and 3.78% in 2021. Excluding PPP loans the yield on loans was 3.97% in 2022, and 3.62% in 2021, 2022. Costs of interest-bearing liabilities decreased increased in 2023 to 0.52% 1.99%

from 0.59% 0.49% in 2021 2022 due to decreased core deposit levels offset by increased deposit rates. Interest expense on borrowings increased \$12.8 million in 2023 compared to 2022 driven by a 79 basis point increase in the weighted average rate of borrowings to 3.24% from 2.45%, respectively, reflecting higher interest rates and increased average borrowings.

#### Provision for Credit Losses

The provision for credit losses in both 2023 and 2022 was a \$2.9 million expense versus a recapture of \$1.3 million in 2021 expense. The expense in 2023 was primarily attributed due to more refined economic forecasting, especially in the 15% national unemployment figures and in commercial real estate prices, and loan growth in 2022 portfolio growth. Overall credit quality remains strong and credit quality metrics improved with notable decreases in non-accruing and past due loans. The benefit in 2021 is primarily due to a partial recapture of the Day 1 CECL allowance that was established January 1, 2021 given steady improvements in most macroeconomic drivers to the ACL during that year.

#### Non-Interest Income

Non-interest income in 2022 2023 was \$35.3 million \$35.8 million compared to \$42.3 million \$35.3 million in 2021 2022. Trust management fees were \$14.6 million \$14.3 million in 2022 2023 compared to \$15.2 \$14.6 in 2021 2022 due to lower market valuation of assets under management ("AUM"). While assets under management were \$2.3 billion throughout the year. AUM was \$2.5 billion compared to \$2.5 billion \$2.3 billion in 2021, we added more than \$132 million 2022, the increase of new account balances. We believe that we have a strong wealth management group and are well positioned \$143 million primarily due to realize an organic lift as market higher security valuations return, in the fourth quarter 2023. Customer service fees increased 12% 3% to \$14.8 million \$15.2 million in 2022 2023 due to higher transaction volumes associated with 2,460 1,000 net new core accounts that opened during the year. The Company sold securities resulting in gains of \$53BOLI income increased \$699 thousand in 2022 2023 compared to \$2.9 million 2022 related to one-time death benefits during 2021. Mortgage banking income decreased to \$1.6 million from \$6.5 million in 2021 primarily driven by the rate environment and lower loan sales, first quarter of 2023.

#### Non-Interest Expense

Non-interest expense was \$93.5 million in 2023 compared to \$91.3 million in 2022 compared to \$90.5 million in 2021 2022. Salaries and benefits expense increased \$1.5 million \$3.9 million to \$48.7 million \$52.5 million in 2022 2023 due to a \$1.5 million \$2.0 million increase in revaluation of post-retirement plan liabilities driven by rate environment, \$711 thousand increase in stock compensation expense due to the revaluation of our

47

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#### [Table of Contents](#)

long term incentive accruals on stronger performance metrics obligations and a \$1.5 million \$782 thousand decrease in deferred loan origination costs driven by lower residential loan volume. Those additional costs in 2022 were offset in part by a \$767 thousand benefit from the revaluation of post-retirement plan

44

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#### [Table of Contents](#)

liabilities as discount rates increased throughout the year, and \$539 thousand in savings from employee insurance and other benefit plans.

The provision for credit losses on unfunded commitments increased \$1.6 million due to higher commercial construction unused lines of credit. Other expenses increased \$1.7 million in 2022 due to a \$352 thousand one-time charitable contribution and a \$1.4 million increase in various

operating expenses including travel, software and statement processing and postage. The increases were offset with a \$4.1 million decrease in non-recurring expenses. Non-recurring expenses in 2022 were mostly contract renegotiation costs totaling \$267 thousand compared to \$4.9 million in 2021 which included a \$2.9 million prepayment penalty on debt extinguishment and \$1.4 million in reduction in workforce expenses.

#### Income Tax Expense

Income tax expense was \$12.3 million for the year ended December 31, 2023, compared with \$11.3 million for the year ended December 31, 2022, compared with \$9.3 million for the year ended December 31, 2021. The effective tax rate increased to 21.5% in 2023 from 20.6% in 2022 from 19.2% in 2021 due to a higher proportion of revenue from non-exempt sources.

#### LIQUIDITY AND CASH FLOWS

Liquidity is measured by the ability to meet short-term cash needs at a reasonable cost or minimal loss. Favorable sources of liabilities are sought to maintain prudent levels of liquid assets in order to satisfy varied liquidity demands. Besides serving as a funding source for maturing obligations, liquidity provides flexibility in responding to customer initiated needs. Many factors affect the ability to meet liquidity needs, including variations in the markets served by its network of offices, its mix of assets and liabilities, reputation and credit standing in the marketplace, and general economic conditions.

The liquidity position is actively managed through target ratios established under our liquidity and funding policy. Continual monitoring of these ratios, by using historical data and through forecasts under multiple rate and stress scenarios, allows the ability to employ strategies necessary to maintain adequate liquidity. The policy is to maintain a liquidity position of at least 8% of total assets. A portion of the deposit base has been historically seasonal in nature, with balances typically declining in the winter months through late spring, during which period the liquidity position tightens.

A liquidity contingency plan is approved by the Bank's Board of Directors. This plan addresses the steps that would be taken in the event of a liquidity crisis, and identifies other sources of liquidity available to the Company. Management believes that the level of liquidity is sufficient to meet current and future funding requirements. However, changes in economic conditions, including consumer savings habits and availability or access to the brokered deposit market could potentially have a significant impact on the liquidity position.

The existing cash and cash equivalents (including an interest-bearing deposit at the FRB Boston), securities available for sale and cash flows from operating activities will be sufficient to meet anticipated cash needs for at least the next 12 months. Future working capital needs will depend on many factors, including the rate of business and revenue growth. To the extent cash and cash equivalents, securities available for sale and cash flows from operating activities are insufficient to fund future activities, the need to raise additional funds through debt arrangements or public or private debt or equity financings may be utilized. The need to raise additional funds may be needed in the event it is determined in the future to effect one or more acquisitions of banks or businesses. If additional funding is required, we may not be able to obtain debt arrangements or to effect an equity or debt financing on terms acceptable or at all.

#### Capital Resources

Consistent with our long-term goal of operating a sound and profitable organization, at December 31, 2022 December 31, 2023, we continue to be a "well-capitalized" financial institution according to applicable regulatory standards. Management believes this to be vital in promoting depositor and investor confidence and providing a solid foundation for future growth.

At December 31, 2022 December 31, 2023, available same-day liquidity totaled approximately \$1.0 billion \$1.2 billion, including cash, borrowing capacity at FHLB and the Federal Reserve Discount Window and various lines of credit. Additional sources of liquidity include cash flows from operations, wholesale deposits, cash flow from the Company's amortizing securities and loan portfolios. We have unused borrowing capacity at the FHLB of \$275 million \$381.4 million, unused borrowing capacity at the Federal Reserve of

#### [Table of Contents](#)

\$90 million \$126.6 million and unused lines of credit totaling \$51 million \$51.0 million, in addition to over \$200 million in unencumbered, liquid investment portfolio assets.

#### Purchase Obligations

In the normal course of conducting our banking and financial services business, and in connection with providing products and services to our customers, a variety of traditional third-party contracts for support services have been entered into. Examples of such contractual agreements include, but are not limited to: services providing core banking systems, ATM and debit card processing, trust services software, accounting software and the leasing of T-1 telecommunication lines and

[Table of Contents](#)

other technology infrastructure supporting our network. These types of purchase obligations that will come due during **2023 totaled \$7.7 million** **2024 approximates \$9.5 million** as of **December 31, 2022** **December 31, 2023** which is expected to be funded by cash flows generated from our operations.

**Impact of Inflation and Changing Prices**

A banking organization's assets and liabilities are primarily monetary. Changes in the rate of inflation do not have as great an impact on the financial condition of a bank as do changes in interest rates. Moreover, interest rates do not necessarily change at the same percentage as inflation. Accordingly, changes in inflation are not expected to have a material impact on the Company.

The FOMC often applies contractionary monetary policies during times of high inflation, resulting in elevated interest rates. Elevated interest rates may lower the market value of existing balance sheet assets and often result in a significant unrealized loss position. These lower market values may negatively affect the Bank's liquidity position as it results in a lower value of the Bank's liquid assets.

**IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS**

Please refer to the notes on Recently Adopted Accounting Principles and Future Application of Accounting Pronouncements in Note 1 – *Summary of Significant Accounting Policies* of the Consolidated Financial Statements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Note 1 – *Summary of Significant Accounting Policies* to our audited Consolidated Financial Statements for the year ended **December 31, 2022** **December 31, 2023** contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at estimated fair value or the lower of cost or estimated fair value. Policies with respect to the methodology used to determine the allowance for credit losses is a critical accounting policy and estimate because of its importance to the presentation of our financial condition and results of operations. The critical accounting policy involves a higher degree of complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could result in material differences in the results of operations or financial condition.

***Allowance for credit losses on loans (the "allowance")***

The allowance is sensitive to a number of internal factors, such as modifications in the mix and level of loan balances outstanding, portfolio performance and assigned risk ratings. The allowance is also sensitive to external factors such as the general health of the economy, as evidenced by changes in unemployment rates, home pricing index, gross domestic product, retail sales and changes in commercial real estate values. We consider these variables and all other available information when establishing the final level of the allowance. These variables and others have the ability to result in actual loan losses that differ from the originally estimated amounts.

Changes in the factors used by management to determine the appropriateness of the allowance or the availability of new information could cause the allowance to be increased or decreased in future periods. Additionally, changes in circumstances related to individually large credits, or certain macroeconomic forecast assumptions may result in volatility.

It is difficult to estimate how potential changes in any one economic factor might affect the overall allowance because a wide variety of factors and inputs are considered in the allowance estimate. Changes in the factors and inputs may not occur at the same rate and may not be

consistent across all product types. Additionally, changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others. However, to consider the impact of a hypothetical stressed forecast, we estimated the allowance using forecast inputs that were severely unfavorable to the expected scenario for each macroeconomic variable. This unfavorable scenario resulted in an allowance that is approximately \$8.0 million higher than the allowance using the expected scenario.

4649

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[Table of Contents](#)

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Interest rate risk is the most significant market risk affecting the Company. Other types of market risk do not arise in the normal course of our business activities.

The responsibility for interest rate risk management oversight is the function of the Bank's Asset and Liability Committee ("ALCO"), chaired by the Chief Financial Officer and composed of various members of senior management. ALCO meets regularly to review balance sheet structure, formulate strategies in light of current and expected economic conditions, adjust product prices as necessary, implement policy, monitor liquidity, and review performance against guidelines established to control exposure to the various types of inherent risk.

**Interest Rate Risk:**

Interest rate risk can be defined as an exposure to movement in interest rates that could have an adverse impact on the net interest income. Interest rate risk arises from the imbalance in the re-pricing, maturity and/or cash flow characteristics of assets and liabilities. Management's objectives are to measure, monitor and develop strategies in response to the interest rate risk profile inherent in the Bank's balance sheet. The objectives in managing the balance sheet are to preserve the sensitivity of net interest income to actual or potential changes in interest rates, and to enhance profitability through strategies that promote sufficient reward for understood and controlled risk.

The interest rate risk measurement and management techniques incorporate the re-pricing and cash flow attributes of balance sheet and off-balance sheet instruments as each relate to current and potential changes in interest rates. The level of interest rate risk, measured in terms of the potential future effect on net interest income, is determined through the use of modeling and other techniques under multiple interest rate scenarios. Interest rate risk is evaluated in depth on a quarterly basis and reviewed by ALCO and the Board of Directors.

The Asset Liability Management Policy, approved annually by the Bank's Board of Directors, establishes interest rate risk limits in terms of variability of net interest income under rising, flat, and decreasing rate scenarios. It is the role of the ALCO to evaluate the overall risk profile and to determine actions to maintain and achieve a posture consistent with policy guidelines.

**Interest Rate Sensitivity Modeling:**

An interest rate risk model widely recognized in the financial industry is used to monitor and measure interest rate risk. The model simulates the behavior of interest income and expense for all balance sheet and off-balance sheet instruments, under different interest rate scenarios together with a dynamic future balance sheet. Interest rate risk is measured in terms of potential changes in net interest income based upon shifts in the yield curve.

The interest rate risk sensitivity model requires that assets and liabilities be broken down into components as to fixed, variable, and adjustable interest rates, as well as other homogeneous groupings, which are segregated as to maturity and type of instrument. The model includes assumptions about how the balance sheet is likely to evolve through time and in different interest rate environments. The model uses contractual re-pricing dates for variable products, contractual maturities for fixed rate products, and product-specific assumptions for deposit accounts, such as money market accounts, that are subject to re-pricing based on current market conditions. Re-pricing margins are also determined for adjustable rate assets and incorporated in the model. Investment securities and borrowings with option provisions are examined

on an individual basis in each rate environment to estimate the likelihood of exercise. Prepayment assumptions for mortgage loans are calibrated using specific Bank experience while mortgage-backed securities are developed from industry standard models of prepayment speeds, based upon similar coupon ranges and degree of seasoning. Cash flows and maturities are then determined, and for certain assets, prepayment assumptions are estimated under different interest rate scenarios. Interest income and interest expense are then simulated under several hypothetical interest rate conditions.

[Table of Contents](#)

The simulation models a parallel and pro rata shift in rates over a 12-month period. Using this approach, we are able to produce simulation results that illustrate the effect that both a gradual “rate ramp” and a “rate shock” have on earnings expectations. Our net interest income sensitivity analysis reflects changes to net interest income assuming no balance sheet

[Table of Contents](#)

growth and a parallel shift in interest rates. All rate changes were “ramped” over the first 12-month period and then maintained at those levels over the remainder of the simulation horizon. Changes in net interest income based upon these simulations are measured against the flat interest rate scenario.

As of **December 31, 2022** **December 31, 2023**, interest rate sensitivity modeling results indicate that the balance sheet was asset sensitive over the one- and two-year horizons.

The following table presents the changes in sensitivities on net interest income for the years ended **December 31, 2022** **December 31, 2023** and **2021:2022**:

Change in Interest Rates-Basis Points (Rate Ramp) (in thousands, except ratios)	1 - 12 Months		13 - 24 Months		1 - 12 Months		13 - 24 Months	
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
<b>At December 31, 2023</b>								
-200					\$(6,229)	(5.0)%	\$(12,776)	(9.7)%
-100					(3,310)	(2.7)	(6,468)	(4.9)
+100					2,421	2.0	4,818	3.7
+200					4,938	(4.0)	9,143	6.9
<b>At December 31, 2022</b>								
-200	\$ (6,183)	(4.3)%	\$ (19,692)	(12.8)%	\$(6,183)	(4.3)%	\$(19,692)	(12.8)%
-100	(2,261)	(1.6)	(7,954)	(5.2)	(2,261)	(1.6)	(7,954)	(5.2)
+100	1,704	1.2	5,583	3.6	1,704	1.2	5,583	3.6
+200	3,253	2.3	10,627	6.9	3,253	2.3	10,627	6.9
<b>At December 31, 2021</b>								
-100	(1,939)	(2.0)	(5,945)	(6.4)				
+100	4,545	4.8	11,492	12.4				

+200	9,413	9.9	22,220	23.9
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Assuming short-term and long-term interest rates decline 100 to 200 basis points from current levels (i.e., a parallel yield curve shift) and the Bank's balance sheet structure and size remain at current levels, management believes net interest income will deteriorate over the one year horizon while deteriorating further from that level over the two-year horizon.

Assuming the Bank's balance sheet structure and size remain at current levels and the Federal Reserve increases short-term interest rates by 100 to 200 basis points with the balance of the yield curve shifting in parallel with these increases, management believes net interest income will improve over both the one and two-year horizons.

As compared to **December 31, 2021** **December 31, 2022**, sensitivity to rate movements has decreased as the bank has incrementally shifted to a less asset sensitive position.

The preceding sensitivity analysis does not represent a forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels and yield curve shape, prepayment speeds on loans and securities, deposit rates, pricing decisions on loans and deposits, reinvestment or replacement of asset and liability cash flows, and renegotiated loan terms with borrowers. While assumptions are developed based upon current economic and local market conditions, we cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences might change.

As market conditions vary from those assumed in the sensitivity analysis, actual results may also differ due to: prepayment and refinancing levels deviating from those assumed; the impact of interest rate changes, caps or floors on adjustable rate assets; the potential effect of changing debt service levels on customers with adjustable rate loans; depositor early withdrawals and product preference changes; and other such variables. The sensitivity analysis also does not reflect additional actions that the Bank's senior executive team and Board of Directors might take in responding to or anticipating changes in interest rates, and the anticipated impact on the Bank's net interest income.

**4851**

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#### [Table of Contents](#)

#### **ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

##### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of Bar Harbor Bankshares and Subsidiaries

##### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Bar Harbor Bankshares and Subsidiaries (the Company) as of **December 31, 2022** **December 31, 2023** and **2021**, 2022, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended **December 31, 2022** **December 31, 2023**, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of **December 31, 2022** **December 31, 2023** and **2021**, 2022, and the results of their its operations and their its cash flows for each of the three years in the period ended **December 31, 2022** **December 31, 2023**, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our

report dated **March 14, 2023** **March 11, 2024**, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

#### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the **audits** **audit** to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### **Allowance for Credit Losses on Loans**

As described in Notes 1 and 3 to the consolidated financial statements, the allowance for credit losses on loans is established through a provision for credit losses and represents an amount which, in management's judgment, will be adequate to absorb losses on existing loans. The Company's consolidated allowance for credit losses on loan balances was **\$25.9 million** **\$28.1 million** at **December 31, 2022** **December 31, 2023**. The allowance for credit losses on loans is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally larger non-accruing commercial loans and troubled debt restructurings.

4952

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#### [Table of Contents](#)

The Company uses the discounted cash flow method to estimate expected credit losses for all loan portfolio segments measured on a pool basis wherein payment expectations are adjusted for estimated prepayment speeds, probability of default (PD), and loss given default (LGD). The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime PD. This analysis also determines how expected PD and LGD will react to forecasted levels of the loss drivers. Management utilizes various economic indicators such as changes in unemployment rates, gross domestic product (GDP), property values, **housing starts** and other relevant factors as loss drivers and has determined that, due to historical volatility in economic data, two quarters currently represents a reasonable and supportable forecast period, followed by a six-period reversion to historical mean levels for each of the various economic indicators. The allowance evaluation also considers various qualitative factors, such as: (i) changes to lending policies, underwriting standards and/or management personnel performing such functions, (ii) delinquency and other credit quality trends, (iii) credit risk concentrations, if any, (iv) changes to the nature of the Company's business impacting the loan portfolio, (v) and other external factors, that may include, but are not limited to, results of internal loan reviews, stress testing, examinations by bank regulatory agencies, or other events such as a natural disaster. The development of the loan loss allocation for pools of loans with similar risk characteristics requires a significant amount of judgment by management and the assumptions utilized are subject to changing economic **conditions**.

We identified the Company's allowance for credit losses on loans as a critical audit matter, specifically the economic forecasts and qualitative factors, because they involved complex auditor judgment in the evaluation of the Company's assumptions. Additionally, complex auditor judgment was required to examine the methodology that underpins the allowance for credit losses on pools of loans with similar risk characteristics. This includes modeling of PD, LGD, economic forecasts, and qualitative factors.

Our audit procedures related to this critical audit matter included the following, among others:

- We obtained an understanding of the relevant controls related to the allowance for credit losses on loans and tested such controls for design and operating effectiveness, including those over model approval, validation and approval of key data inputs such as economic forecasts and qualitative factors.
- We obtained an understanding of the relevant controls related to the allowance for credit losses on loans and tested such controls for design and operating effectiveness, including those over model approval, validation and approval of key data inputs such as economic forecasts and qualitative factors.
- We tested the completeness and accuracy of data used by management in determining inputs to the PD and LGD, by agreeing those inputs to internal or external information sources.
- We tested the completeness and accuracy of data used by management in determining inputs to the PD and LGD, by agreeing those inputs to internal or external information sources.
- We evaluated management's judgments used in the identification of peer banks for PD and LGD calculations.
- We evaluated management's judgments used in the identification of peer banks for PD and LGD calculations, by comparing peer banks to those used in prior periods and to external information sources.
- We evaluated management's forecasts of future economic indicators for reasonableness, which included unemployment, housing price index, retail sales, and national GDP growth, among others, by comparing these forecasts to external and internal information sources.
- We evaluated management's forecasts of future economic indicators for reasonableness, which included unemployment, housing price index, and national GDP growth, among others, by comparing these forecasts to external and internal information sources.
- We evaluated management's judgments and assumptions used in the development of the qualitative factors for reasonableness, and tested the reliability of the underlying data on which these factors are based, by comparing information to source documents and external information sources.
- We evaluated management's judgments and assumptions used in the development of the qualitative factors for reasonableness, and tested the reliability of the underlying data on which these factors are based, by comparing information to source documents and external information sources.

/s/ RSM US LLP

We have served as the Company's auditor since 2015.

Boston, Massachusetts

Hartford, Connecticut

March 14, 2023

11, 2024

5053

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[Table of Contents](#)

**BAR HARBOR BANKSHARES AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)	December 31, 2022	December 31, 2021
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<b>Assets</b>			
<b>Cash and cash equivalents:</b>			
Cash and due from banks	\$ 39,933	\$ 33,508	
Interest-earning deposits with other banks	52,362	216,881	
Total cash and cash equivalents	92,295	250,389	
<b>Securities:</b>			
Securities available for sale	559,516	618,276	
Federal Home Loan Bank stock	14,893	7,384	
Total securities	574,409	625,660	
Loans held for sale	—	5,523	
Total loans	2,902,690	2,531,910	
Less: Allowance for credit losses	(25,860)	(22,718)	
Net loans	2,876,830	2,509,192	
Premises and equipment, net	47,622	49,382	
Goodwill	119,477	119,477	
Other intangible assets	5,801	6,733	
Cash surrender value of bank-owned life insurance	81,197	79,020	
Deferred tax assets, net	24,443	5,547	
Other assets	87,729	58,310	
Total assets	\$ 3,909,803	\$ 3,709,233	
<b>Liabilities</b>			
<b>Deposits:</b>			
Demand	\$ 676,350	\$ 664,420	
NOW	900,730	940,631	
Savings	664,514	628,670	
Money market	478,398	389,291	
Time	323,439	425,532	
Total deposits	3,043,431	3,048,544	
<b>Borrowings:</b>			
Senior	333,957	118,400	
Subordinated	60,289	60,124	
Total borrowings	394,246	178,524	
Other liabilities	78,676	58,018	
Total liabilities	3,516,353	3,285,086	
(in thousands, except share data)		December 31, 2023	December 31, 2022
<b>Assets</b>			
<b>Cash and cash equivalents:</b>			
Cash and due from banks	\$ 42,221	\$ 39,933	
Interest-earning deposits with other banks	52,621	52,362	
Total cash and cash equivalents	94,842	92,295	
<b>Securities:</b>			
Securities available for sale	534,574	559,516	
Federal Home Loan Bank stock	12,788	14,893	
Total securities	547,362	574,409	

Loans held for sale	2,189	—
Total loans	2,999,049	2,902,690
Less: Allowance for credit losses	(28,142)	(25,860)
Net loans	2,970,907	2,876,830
Premises and equipment, net	48,287	47,622
Other real estate owned	—	—
Goodwill	119,477	119,477
Other intangible assets	4,869	5,801
Cash surrender value of bank-owned life insurance	80,037	81,197
Deferred tax assets, net	22,979	24,443
Other assets	79,936	87,729
Total assets	<u>\$ 3,970,885</u>	<u>\$ 3,909,803</u>
<b>Liabilities</b>		
<i>Deposits:</i>		
Demand	\$ 569,714	\$ 676,350
NOW	946,978	900,730
Savings	553,963	664,514
Money market	370,242	478,398
Time	700,260	323,439
Total deposits	<u>3,141,157</u>	<u>3,043,431</u>
<i>Borrowings:</i>		
Senior	271,044	333,957
Subordinated	60,461	60,289
Total borrowings	<u>331,505</u>	<u>394,246</u>
Other liabilities	66,164	78,676
Total liabilities	<u>3,538,826</u>	<u>3,516,353</u>

51

[Table of Contents](#)

(in thousands, except share data)	December 31, 2022	December 31, 2021
<b>Shareholders' equity</b>		
Capital stock, par value \$2.00; authorized 20,000,000 shares; issued 16,428,388 shares; outstanding 15,082,688 shares and 15,001,329 shares at December 31, 2022 and December 31, 2021 respectively	32,857	32,857
Additional paid-in capital	191,922	190,876
Retained earnings	243,815	215,592
Accumulated other comprehensive (loss) income	(58,340)	2,303
Less: 1,345,700 and 1,427,059 shares of treasury stock, at cost, at December 31, 2022 and December 31, 2021, respectively	(16,804)	(17,481)
Total shareholders' equity	<u>393,450</u>	<u>424,147</u>

<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,909,803</b>	<b>\$ 3,709,233</b>
<b>Shareholders' equity</b>		
Capital stock, par value \$2.00; authorized 20,000,000 shares; issued 16,428,388 shares; outstanding 15,172,131 shares and 15,082,688 shares at December 31, 2023 and December 31, 2022, respectively	32,857	32,857
Additional paid-in capital	193,114	191,922
Retained earnings	272,101	243,815
Accumulated other comprehensive loss	(49,862)	(58,340)
Less: 1,256,257 and 1,345,700 shares of treasury stock, at cost, at December 31, 2023 and December 31, 2022, respectively	(16,151)	(16,804)
<b>Total shareholders' equity</b>	<b>432,059</b>	<b>393,450</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,970,885</b>	<b>\$ 3,909,803</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

52 54

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[Table of Contents](#)

**BAR HARBOR BANKSHARES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except earnings per share data)	Years Ended December 31,		
	2022	2021	2020
<b>Interest and dividend income</b>			
Loans	\$ 107,797	\$ 95,236	\$ 107,085
Securities and other	18,729	15,568	19,019
<b>Total interest and dividend income</b>	<b>126,526</b>	<b>110,804</b>	<b>126,104</b>
<b>Interest expense</b>			
Deposits	7,344	8,543	18,043
Borrowings	5,501	6,688	8,881
<b>Total interest expense</b>	<b>12,845</b>	<b>15,231</b>	<b>26,924</b>
<b>Net interest income</b>	<b>113,681</b>	<b>95,573</b>	<b>99,180</b>
Provision for credit losses	2,904	(1,302)	5,625
<b>Net interest income after provision for credit losses</b>	<b>110,777</b>	<b>96,875</b>	<b>93,555</b>
<b>Non-interest income</b>			
Trust and investment management fee income	14,573	15,179	13,378
Customer service fees	14,791	13,212	11,327
Gain on sales of securities, net	53	2,870	5,445
Mortgage banking income	1,580	6,536	6,884
Bank-owned life insurance income	2,000	2,179	2,007
Customer derivative income	310	1,010	2,503
Other income	2,014	1,275	1,412
<b>Total non-interest income</b>	<b>35,321</b>	<b>42,261</b>	<b>42,956</b>
<b>Non-interest expense</b>			

Salaries and employee benefits	48,657	47,117	48,920
Occupancy and equipment	17,575	16,356	16,751
Gain on sales of premises and equipment, net	10	378	(32)
Outside services	1,578	1,943	1,985
Professional services	1,612	1,756	2,060
Communication	880	912	892
Marketing	1,561	1,541	1,385
Amortization of intangible assets	932	940	1,024
Loss on debt extinguishment	—	2,851	1,351
Acquisition, conversion and other expenses	266	1,667	5,801
Provision for unfunded commitments	1,758	177	45
Other expenses	16,424	14,870	14,678
<b>Total non-interest expense</b>	<b>91,253</b>	<b>90,508</b>	<b>94,860</b>
 Income before income taxes	 54,845	 48,628	 41,651
Income tax expense	11,288	9,329	8,407
<b>Net income</b>	<b>\$ 43,557</b>	<b>\$ 39,299</b>	<b>\$ 33,244</b>
 <b>Earnings per share:</b>			
Basic	\$ 2.90	\$ 2.63	\$ 2.18
Diluted	\$ 2.88	\$ 2.61	\$ 2.18
 <b>Weighted average common shares outstanding:</b>			
Basic	15,040	14,969	15,246
Diluted	15,112	15,045	15,272
 <b>Years Ended December 31,</b>			
<b>(in thousands, except earnings per share data)</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Interest and dividend income</b>			
Loans	\$ 149,420	\$ 107,797	\$ 95,236
Securities and other	24,762	18,729	15,568
<b>Total interest and dividend income</b>	<b>174,182</b>	<b>126,526</b>	<b>110,804</b>
<b>Interest expense</b>			
Deposits	38,232	7,344	8,543
Borrowings	18,275	5,501	6,688
<b>Total interest expense</b>	<b>56,507</b>	<b>12,845</b>	<b>15,231</b>
<b>Net interest income</b>	<b>117,675</b>	<b>113,681</b>	<b>95,573</b>
Provision for credit losses	2,908	2,904	(1,302)
<b>Net interest income after provision for credit losses</b>	<b>114,767</b>	<b>110,777</b>	<b>96,875</b>
 <b>Non-interest income</b>			
Trust and investment management fee income	14,283	14,573	15,179
Customer service fees	15,168	14,791	13,212
Gain on sales of securities, net	34	53	2,870
Mortgage banking income	1,587	1,580	6,536
Bank-owned life insurance income	2,699	2,000	2,179
Customer derivative income	409	310	1,010
Other income	1,649	2,014	1,275
<b>Total non-interest income</b>	<b>35,829</b>	<b>35,321</b>	<b>42,261</b>
 <b>Non-interest expense</b>			
Salaries and employee benefits	52,516	48,657	47,117
Occupancy and equipment	17,584	17,575	16,356
Loss on sales of premises and equipment, net	182	10	378
Outside services	1,671	1,578	1,943

Professional services	1,586	1,612	1,756
Communication	697	880	912
Marketing	1,696	1,561	1,541
Amortization of intangible assets	932	932	940
Loss on debt extinguishment	—	—	2,851
Acquisition, conversion and other expenses	283	266	1,667
Provision for unfunded commitments	(85)	1,758	177
Other expenses	16,417	16,424	14,870
<b>Total non-interest expense</b>	<b>93,479</b>	<b>91,253</b>	<b>90,508</b>
 Income before income taxes	 57,117	 54,845	 48,628
Income tax expense	12,265	11,288	9,329
<b>Net income</b>	<b>\$ 44,852</b>	<b>\$ 43,557</b>	<b>\$ 39,299</b>
 <b>Earnings per share:</b>			
Basic	\$ 2.96	\$ 2.90	\$ 2.63
Diluted	\$ 2.95	\$ 2.88	\$ 2.61
 <b>Weighted average common shares outstanding:</b>			
Basic	15,142	15,040	14,969
Diluted	15,195	15,112	15,045

*The accompanying notes are an integral part of these consolidated financial statements.*

5355

[Table of Contents](#)

**BAR HARBOR BANKSHARES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

(in thousands)	Years Ended December 31,		
	2022	2021	2020
Net income	\$ 43,557	\$ 39,299	\$ 33,244
<b>Other comprehensive (loss) income, before tax:</b>			
Changes in unrealized (loss) gain on securities available for sale	(74,412)	(10,489)	5,819
Changes in unrealized (loss) gain on hedging derivatives	(3,463)	3,562	(1,651)
Changes in unrealized (loss) gain on pension	(973)	1,132	(338)
<b>Income taxes related to other comprehensive income:</b>			
Changes in unrealized loss (gain) on securities available for sale	17,181	2,451	(1,345)
Changes in unrealized loss (gain) on hedging derivatives	799	(827)	386
Changes in unrealized loss (gain) on pension	225	(266)	77
Total other comprehensive (loss) income	(60,643)	(4,437)	2,948
<b>Total comprehensive (loss) income</b>	<b>\$ (17,086)</b>	<b>\$ 34,862</b>	<b>\$ 36,192</b>

(in thousands)	Years Ended December 31,		
	2023	2022	2021

Net income	\$ 44,852	\$ 43,557	\$ 39,299
<b>Other comprehensive income (loss), before tax:</b>			
Changes in unrealized gain (loss) on securities available for sale	9,481	(74,412)	(10,489)
Changes in unrealized gain (loss) on hedging derivatives	1,011	(3,463)	3,562
Changes in unrealized gain (loss) on pension	135	(973)	1,132
<b>Income taxes related to other comprehensive income (loss):</b>			
Changes in unrealized (gain) loss on securities available for sale	(1,884)	17,181	2,451
Changes in unrealized (gain) loss on hedging derivatives	(227)	799	(827)
Changes in unrealized (gain) loss on pension	(38)	225	(266)
Total other comprehensive income (loss)	8,478	(60,643)	(4,437)
<b>Total comprehensive income (loss)</b>	<b>\$ 53,330</b>	<b>\$ (17,086)</b>	<b>\$ 34,862</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

5456

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[Table of Contents](#)

**BAR HARBOR BANKSHARES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(in thousands, except per share data)	Accumulated					Accumulated					
	Common stock	Additional paid-in	Retained	other comprehensive	Treasury	Common stock	Additional paid-in	Retained	other comprehensive	Treasury	
	amount	capital	earnings	income (loss)	stock	Total	amount	capital	earnings	income (loss)	stock
Balance at December 31, 2019	\$ 32,857	\$ 188,536	\$ 175,780	\$ 3,792	\$ (4,677)	\$ 396,288					
Net income	—	—	33,244	—	—	33,244					
Other comprehensive income	—	—	—	2,948	—	2,948					
Cash dividends declared (\$0.88 per share)	—	—	(13,417)	—	—	(13,417)					
Treasury stock purchased (733,567 shares)	—	—	—	—	(14,188)	(14,188)					

Net issuance (91,359 shares)	—	(22)	—	—	642	620	—	—	—	—	—
to employee stock plans, including related tax effects	—	(22)	—	—	642	620	—	—	—	—	—
Recognition of stock based compensation	—	1,570	—	—	—	—	1,570	—	—	—	—
<b>Balance at December 31, 2020</b>	<b>\$ 32,857</b>	<b>\$ 190,084</b>	<b>\$195,607</b>	<b>\$ 6,740</b>	<b>\$(18,223)</b>	<b>\$407,065</b>	<b>\$ 32,857</b>	<b>\$ 190,084</b>	<b>\$195,607</b>	<b>\$ 6,740</b>	<b>\$(18,223)</b>
Net income	—	—	39,299	—	—	39,299	—	—	39,299	—	—
Other comprehensive income	—	—	—	(4,437)	—	(4,437)	—	—	—	—	—
Other comprehensive (loss)	—	—	—	—	—	—	—	—	—	(4,437)	—
Impact of ASC 326 adoption	—	—	(5,242)	—	—	(5,242)	—	—	(5,242)	—	—
Cash dividends declared (\$0.94 per share)	—	—	(14,072)	—	—	(14,072)	—	—	(14,072)	—	—
Net issuance (85,406 shares)	—	—	—	—	—	—	—	—	—	—	—
to employee stock plans, including related tax effects	—	(1,357)	—	—	742	(615)	—	(1,357)	—	—	742
Recognition of stock based compensation	—	2,149	—	—	—	—	2,149	—	2,149	—	—
<b>Balance at December 31, 2021</b>	<b>\$ 32,857</b>	<b>\$ 190,876</b>	<b>\$215,592</b>	<b>\$ 2,303</b>	<b>\$(17,481)</b>	<b>\$424,147</b>	<b>\$ 32,857</b>	<b>\$ 190,876</b>	<b>\$215,592</b>	<b>\$ 2,303</b>	<b>\$(17,481)</b>
Net income	—	—	43,557	—	—	43,557	—	—	43,557	—	—
Other comprehensive income	—	—	—	(60,643)	—	(60,643)	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(60,643)	—
Cash dividends declared (\$1.02 per share)	—	—	(15,334)	—	—	(15,334)	—	—	(15,334)	—	—
Net issuance (81,359 shares)	—	—	—	—	—	—	—	—	—	—	—
to employee stock plans, including related tax effects	—	(892)	—	—	677	(215)	—	(892)	—	—	677

Recognition of stock based compensation	—	1,938	—	—	—	—	1,938	—	1,938	—	—
Balance at December 31, 2022	\$ 32,857	\$ 191,922	\$ 243,815	\$ (58,340)	\$ (16,804)	\$ 393,450	\$ 32,857	\$ 191,922	\$ 243,815	\$ (58,340)	\$ (16,804)
Net income							—	—	44,852	—	—
Other comprehensive income							—	—	—	8,478	—
Cash dividends declared (\$1.10 per share)							—	—	(16,566)	—	—
Net issuance (89,443 shares) to employee stock plans, including related tax effects							—	(1,458)	—	—	65
Recognition of stock based compensation							—	2,650	—	—	—
Balance at December 31, 2023	\$ 32,857	\$ 193,114	\$ 272,101	\$ (49,862)	\$ (16,157)	\$ (16,157)	\$ (16,157)	\$ (16,157)	\$ (16,157)	\$ (16,157)	\$ (16,157)

*The accompanying notes are an integral part of these consolidated financial statements.*

5557

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[Table of Contents](#)

**BAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)	Years Ended December 31,		
	2022	2021	2020
<b>Cash flows from operating activities:</b>			
Net income	\$ 43,557	\$ 39,299	\$ 33,244
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Originations of loans held for sale	(33,219)	(170,758)	(240,858)
Proceeds from loan sales	38,581	193,468	228,626
Gain (loss) on sale of loans	161	(4,131)	(5,257)

Provision for credit losses	2,904	(1,302)	5,625
Net amortization of securities	2,869	4,471	3,367
Deferred tax (benefit) expense	(707)	427	(38)
Change in unamortized net loan costs and premiums	170	(1,354)	(122)
Premises and equipment depreciation	4,243	4,596	4,771
Stock-based compensation expense	1,938	2,149	1,570
Accretion of purchase accounting entries, net	—	(2,274)	(749)
Amortization of other intangibles	932	940	1,025
Income from cash surrender value of bank-owned life insurance policies	(2,000)	(2,179)	(2,007)
Gain on sales of securities, net	(53)	(2,870)	(5,445)
Amortization (accretion) of right-of-use lease assets	1,196	1,064	(715)
(Decrease) increase in lease liabilities	(1,142)	(984)	976
Gain on other real estate owned	—	—	(355)
Loss (gain) on premises and equipment, net	10	378	(32)
Net change in other assets and liabilities	(1,839)	(462)	(2,942)
Net cash provided by operating activities	<u>57,601</u>	<u>60,478</u>	<u>20,684</u>
 Cash flows from investing activities:			
Proceeds from sales of securities available for sale	7,130	92,723	153,200
Proceeds from maturities, calls and prepayments of securities available for sale	73,740	111,552	151,829
Purchases of securities available for sale	(109,019)	(249,595)	(215,567)
Net change in loans	(371,316)	33,707	70,617
Recoveries of previously charged off loans	604	608	272
Purchase of FHLB stock	(11,016)	(2,565)	(4,105)
Proceeds from sale of FHLB stock	3,507	9,217	10,748
Purchase of premises and equipment, net	(2,518)	(1,716)	(6,776)
Proceeds from premises held for sale	—	288	903
Net investment in community limited partnerships	(1,692)	(1,310)	(2,750)
Proceeds from death benefit of bank-owned life insurance policy	—	1,029	—
Acquisitions, net of cash acquired	—	—	(340)
Proceeds from sale of other real estate owned	—	—	2,205
Net cash (used in) provided by investing activities	<u>(410,580)</u>	<u>(6,062)</u>	<u>160,236</u>
 Cash flows from financing activities:			
Net change in deposits	(5,113)	142,329	210,464
Net change in short-term senior borrowings	242,000	9,324	(248,262)
Proceeds from long-term senior borrowings	—	—	148,199
Repayments of long-term senior borrowings	(20,020)	(159,023)	(78,186)
Net change in short-term other borrowings	(6,433)	(7,977)	(17,053)
Net issuance to employee stock plans	(215)	(615)	620
Purchase of treasury and common stock	—	—	(14,188)
Cash dividends paid on common stock	(15,334)	(14,072)	(13,417)
Net cash provided by (used in) financing activities	<u>194,885</u>	<u>(30,034)</u>	<u>(11,823)</u>

(in thousands)	Year Ended December 31,		
	2022	2021	2020
Net change in cash and cash equivalents	(158,094)	24,382	169,097
Cash and cash equivalents at beginning of year	250,389	226,007	56,910
Cash and cash equivalents at end of period	<u>\$ 92,295</u>	<u>\$ 250,389</u>	<u>\$ 226,007</u>
Supplemental cash flow information:			
Interest paid	\$ 12,451	\$ 16,354	\$ 27,423
Income taxes paid, net	10,598	8,859	10,045
Acquisition of non-cash assets and liabilities:			
Assets acquired	—	—	1,171
Liabilities acquired	—	—	(343)

(in thousands)	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	\$ 44,852	\$ 43,557	\$ 39,299
Adjustments to reconcile net income to net cash provided by operating activities:			
Net change in loans held for sale	(2,189)	5,523	18,579
Provision for credit losses	2,908	2,904	(1,302)
Net amortization of securities	2,429	2,869	4,471
Deferred tax (benefit) expense	(686)	(707)	427
Change in unamortized net loan costs and premiums	(145)	170	(1,354)
Premises and equipment depreciation	4,177	4,243	4,596
Stock-based compensation expense	2,650	1,938	2,149
Accretion of purchase accounting entries, net	—	—	(2,274)
Amortization of other intangibles	932	932	940
Income from cash surrender value of bank-owned life insurance policies	(2,699)	(2,000)	(2,179)
Gain on sales of securities, net	(34)	(53)	(2,870)
Amortization of right-of-use lease assets	1,204	1,196	1,064
Decrease in lease liabilities	(1,179)	(1,142)	(984)
Gain on premises and equipment, net	182	10	378
Net change in other assets and liabilities	(4,999)	(3,531)	(1,772)
Net cash provided by operating activities	<u>47,403</u>	<u>55,909</u>	<u>59,168</u>
Cash flows from investing activities:			
Proceeds from sales, maturities, calls and prepayments of securities available for sale	42,184	80,870	204,275
Purchases of securities available for sale	(7,521)	(109,019)	(249,595)
Net change in loans	(96,840)	(370,712)	34,315
Purchase of Federal Home Loan Bank stock	(18,370)	(11,016)	(2,565)
Proceeds from sale of Federal Home Loan Bank stock	20,473	3,507	9,217
Purchase of premises and equipment, net	(6,533)	(2,518)	(1,716)
Proceeds from sale of premises and equipment	413	—	—
Proceeds from premises held for sale	—	—	288
Proceeds from death benefit of bank-owned life insurance policy	3,904	—	1,029
Net cash used in investing activities	<u>(62,290)</u>	<u>(408,888)</u>	<u>(4,752)</u>
Cash flows from financing activities:			
Net change in deposits	97,726	(5,113)	142,329
Net change in short-term borrowings	(60,604)	235,567	1,347
Repayments of long-term borrowings	(2,317)	(20,020)	(159,023)

Net issuance to employee stock plans	(805)	(215)	(615)
Cash dividends paid on common stock	(16,566)	(15,334)	(14,072)
Net cash provided by financing activities	<u>17,434</u>	<u>194,885</u>	<u>(30,034)</u>
Net change in cash and cash equivalents	2,547	(158,094)	24,382
Cash and cash equivalents at beginning of year	92,295	250,389	226,007
Cash and cash equivalents at end of period	<u>\$ 94,842</u>	<u>\$ 92,295</u>	<u>\$ 250,389</u>
Supplemental cash flow information:			
Interest paid	\$ 51,973	\$ 12,451	\$ 16,354
Income taxes paid, net	15,026	10,598	8,859

*The accompanying notes are an integral part of these consolidated financial statements.*

57 58

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[Table of Contents](#)

**BAR HARBOR BANKSHARES AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation:** The consolidated financial statements (the "financial statements") of Bar Harbor Bankshares and its subsidiaries (the "Company," or "we") have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Bar Harbor Bankshares is a Maine Financial Institution Holding Company for the purposes of the laws of the State of Maine, and as such, is subject to the jurisdiction of the Superintendent of the Maine Bureau of Financial Institutions. These financial statements include the accounts of the Company, its wholly-owned subsidiary Bar Harbor Bank & Trust (the "Bank") and the Bank's consolidated subsidiaries. The results of operations of companies or assets acquired are included only from the dates of acquisition. All material wholly-owned and majority-owned subsidiaries are consolidated unless U.S. GAAP requires otherwise.

**Consolidation:** The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP. The consolidated financial statements include the accounts of Bar Harbor Bankshares and its wholly-owned subsidiaries, Bar Harbor Bank & Trust, Bar Harbor Wealth Management, and Cottage Street Corporation. In 2022, Charter Trust Company and Bar Harbor Trust Services merged to become Bar Harbor Wealth Management. All significant inter-company balances and transactions have been eliminated in consolidation. Assets held in a fiduciary capacity are not assets of the Company, but assets of customers, and therefore, are not included in the consolidated balance sheet.

**Reclassifications:** Whenever necessary, amounts in the prior years' financial statements are reclassified to conform to current presentation. The reclassifications had no impact on net income in the Company's consolidated income statement.

**Use of estimates:** In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the allowance for credit losses ("ACL"), off-balance sheet credit exposures, available for sale securities, the accounting for business combinations including subsequent impairment analyses for goodwill and other intangible assets, accounting for income taxes, post-retirement benefits, and asset impairment assessments.

**Subsequent Events:** Events and transactions subsequent to December 31, 2022 2023 are evaluated for potential recognition or disclosure as required by GAAP.

**Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand and amounts due from banks, interest-bearing deposits with other banks, federal funds sold, and other short-term investments with maturities less than 90 days.

**Securities:** All securities held at December 31, 2022 December 31, 2023 and 2021 2022 were classified as available-for-sale ("AFS"). Available for sale securities primarily consist of mortgage-backed securities, obligations of state and political subdivisions thereof, and corporate bonds and are carried at estimated fair value. Changes in estimated fair value of AFS securities, net of applicable income taxes, are reported in accumulated other comprehensive income (loss) as a separate component of shareholders' equity unless deemed to have a credit loss as discussed below.

Premiums and discounts on securities are amortized and accreted over the term or to first call of the securities using the interest level yield method. Municipal security premiums are accreted over full term straight-line and discounts are amortized over the call term on a straight line basis. Gains and losses on the sale of securities are recognized at the trade date using the specific-identification method and are shown separately in the Consolidated Statements of Income.

**Allowance for Credit Loss on AFS Debt Securities:** Credit quality of AFS debt securities is monitored through credit ratings from various rating agencies and substantial price changes. Credit ratings express opinions about the credit quality of a security and are utilized by us to make informed decisions. Securities are triggered for further review in the quarter if the security has significant fluctuations in ratings, drops below investment grade, or significant pricing changes. For securities without credit ratings, we utilize other financial information indicating the financial health of the underlying

59

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[Table of Contents](#)

municipality, agency, or organization associated with the underlying security. If this assessment indicates that a credit loss exists, the

58

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[Table of Contents](#)

present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance on AFS debt securities is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. When assessing an AFS debt security for credit loss, securities with identical CUSIPs are pooled together to assess for impairment using the average cost basis. Any impairment that has not been recorded through an allowance is recognized in other comprehensive income.

A change in the allowance on AFS debt securities may be in full or a portion thereof, is recorded as expense (credit) within provision for credit losses on the consolidated statements of income. Losses are charged against the allowance when management believes an AFS debt security is uncollectible based on the above described analysis. As of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, there were no allowances carried on AFS debt securities. Refer to Note 2 – *Securities Available for Sale* of the consolidated financial statements for further discussion.

**Federal Home Loan Bank Stock:** Federal Home Loan Bank ("FHLB") stock is a non-marketable equity security and therefore is reported at cost, which generally equals par value. Shares held in excess of the minimum required by the FHLB are generally redeemable at par value. Dividends from FHLB stock are reported in interest and dividend income.

FHLB stock is periodically evaluated for impairment based on the capital adequacy of the FHLB and its overall financial condition. Based on the capital adequacy, liquidity position and sustained profitability of the FHLB. There FHLB, there was no impairment related to the carrying amount of FHLB stock as of December 31, 2022 December 31, 2023 and 2021, 2022.

**Loans Held for Sale:** Residential loans originated with the intent to be sold in the secondary market are accounted for at fair value. Fair value is primarily determined based on quoted prices for similar loans in active markets. Residential loans held for sale are generally sold with servicing rights retained. The carrying value of loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of residential loans (sales proceeds minus carrying value) are recorded in non-interest income. The loan portfolio is consistently evaluated in conjunction with asset/liability management practices, and certain residential mortgage loans may be sold to manage interest rate exposure and for other business purposes, including generating fee income through mortgage sale gains.

**Loans:** Loans held for investment are reported at amortized cost. Amortized cost is the principal balance outstanding net of the unamortized balance of any deferred fees or costs and the unamortized balance of any premiums or discounts on loans purchased or acquired through mergers.

For originated loans, loan fees and certain direct origination costs are deferred and amortized into interest income over the contractual term of the loan using the level-yield method over the estimated lives of the related loans. When a loan is paid off, the unamortized portion of deferred fees or costs are recognized in interest income. Interest income on originated loans is accrued based upon the daily principal amount outstanding except for loans on non-accrual status.

For acquired loans, interest income is accrued based upon the daily principal amount outstanding and is then further adjusted by the accretion of any discount or amortization of any premium associated with the loan that was recognized based on the acquisition date fair value. When a loan is paid off, the unamortized portion of any premiums or discounts on loans are recognized in interest income.

**Purchase Credit Deteriorated (PCD) Loans:** Loans acquired in acquisitions include some loans that have experienced more than insignificant credit deterioration since origination. The initial allowance for credit losses ACL is determined on a collective basis and allocated to the individual loans. The sum of the loan's purchase price and allowance for credit losses acl becomes its initial amortized cost. The difference between the initial amortized cost and the par value of the loan is a discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision expense.

**Non-performing loans:** Residential real estate and home equity loans are generally placed on non-accrual status when reaching 90 days past due, or are in process of foreclosure, or sooner if considered appropriate by management. Consumer other loans are generally placed on non-accrual when reaching 90 days or more past due, or sooner if considered

60

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[Table of Contents](#)

appropriate by management. Secured consumer other loans are written down to net realizable value and unsecured

59

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[Table of Contents](#)

consumer loans are charged-off upon reaching 120 days past due. Commercial real estate loans and commercial and industrial loans that are 90 days or more past due are generally placed on non-accrual status, unless secured by sufficient cash or other assets immediately convertible

to cash, and the loan is in the process of collection. Commercial real estate and commercial and industrial loans may be placed on non-accrual status prior to the 90 days delinquency date if considered appropriate by management.

When a loan has been placed on non-accrual status, previously accrued and uncollected interest is reversed against interest on the loan. The interest on non-accrual loans is accounted for using the cash-basis or cost-recovery method depending on corresponding credit risk, until qualifying for return to accrual status. A loan can be returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a period of time, generally a minimum of six months.

Acquired loans that meet the criteria for non-accrual of interest prior to an acquisition are considered non-performing acquired loans that meet the criteria for non-accrual consistent with originated loans.

**Loans Modified in a Loan Modifications to Borrowers Experiencing Financial Difficulty:** In January 2023, the Company adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructuring: Restructurings and Vintage Disclosures" which eliminated the accounting guidance for TDRs while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This guidance was applied on a prospective basis. Upon adoption of this guidance, we are no longer required to establish a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, modified loans are generally included in their respective category and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the ACL.

Loans are considered to have been modified in a troubled debt restructuring when, due to a borrower's financial difficulties, certain concessions are made to the borrower that would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a non-accrual loan that has been modified in a troubled debt restructuring remains to borrowers experiencing financial difficulty will remain on non-accrual status for a period of at least 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. loan before being considered a candidate to return to accrual status.

However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status.

**Allowance for Credit Losses:** The allowance for credit losses (the "allowance") is a significant accounting estimate used in the preparation of the Company's consolidated financial statements. The allowance is comprised of the allowance for loan credit losses on loans and the allowance for off-balance sheet credit exposures, which is accounted for as a separate liability in other liabilities on the balance sheet. The level of the allowance represents management's estimate of expected credit losses over the expected life of the loans at the balance sheet date.

The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. The allowance is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, which generally includes larger non-accruing commercial loans and TDRs. loans.

The discounted cash flow ("DCF") method is used to estimate expected credit losses for all loan portfolio segments measured on a collective (pool) basis. For each loan segment, cash flow projections are generated at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, probability of default, and loss given default. The modeling of prepayment speeds is based on historical internal data.

Regression analysis of historical internal and peer data is used to determine suitable loss drivers to utilize when modeling lifetime probability of default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers. For all loan pools utilizing the DCF method, management utilizes various economic indicators such as changes in unemployment rates, gross domestic product, property real estate values, housing starts, and other relevant factors as loss drivers. For all DCF models, management has determined that due to historic volatility in economic data, two quarters currently represents a reasonable and supportable forecast period, followed by a six-period reversion to historical mean levels for each of the various economic indicators.

The combination of adjustments for credit expectations (default and loss) and timing expectations (prepayment, curtailment, and time to recovery) produces an expected cash flow stream at the instrument level. Specific instrument

60

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#### [Table of Contents](#)

effective yields are calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level Net Present Value (**NPV**) ("NPV"). An allowance is established for the difference between the instrument's NPV and amortized cost basis.

The allowance evaluation also considers various qualitative factors, such as: (i) changes to lending policies, underwriting standards and/or management personnel performing such functions, (ii) delinquency and other credit quality trends, (iii) credit risk concentrations, if any, (iv) changes to the nature of the Company's business impacting the loan portfolio, and (v) other external factors, that may include, but are not limited to, results of internal loan reviews, stress testing, examinations by bank regulatory agencies, or other events such as a natural disaster.

Arriving at an appropriate level of allowance involves a high degree of judgment. The determination of the adequacy of the allowance and provisioning for estimated losses is evaluated regularly based on review of loans, with particular emphasis on non-performing and other loans that management believes warrant special consideration. While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance.

**Individually Evaluated Loans:** Loans that do not share risk characteristics with existing pools are evaluated on an individual basis. For loans that are individually evaluated and collateral dependent, financial loans where management has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and management expects repayment of the financial asset to be provided substantially through the **operation or** sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral **or going concern**, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the NPV from the operation of the collateral. When repayment is expected to be from the sale of the collateral, the specific credit loss reserve is calculated as the amount by which the amortized costs basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The allowance may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

**Accrued Interest.** Accrued interest receivable balances are presented within other assets on the consolidated balance sheet. Accrued interest is excluded from the measurement of the allowance for credit losses, including investments and loans. Generally, accrued interest is reversed when a loan is placed on non-accrual or is written-off. Current year accrued interest is reversed through interest income while accrued interest from prior years is written-off through the ACL. Historically, we have not experienced uncollectible accrued interest receivable on investment debt securities.

**Allowance for off-balance sheet credit exposures:** The exposure is a component of other liabilities in the consolidated balance sheet and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unused portions of lines of credit and standby and commercial letters of credit. The process used to determine the allowance for these exposures is consistent with the process for determining the allowance for loans, as adjusted for estimated funding probabilities or loan equivalency factors. A charge (credit) to provision for credit losses on the consolidated statements of income is made to account for the change in the allowance on off-balance sheet exposures between reporting periods.

**Premises and Equipment:** Land is carried at cost. Premises and equipment and related improvements are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the lesser of the lease term or

62

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[Table of Contents](#)

estimated useful lives of related assets; generally five to 39 years for premises and three to eight years for furniture and equipment. Software costs are stated at cost less accumulated depreciation within other assets on the consolidated balance sheet. Amortization expense on software is calculated using the straight-line method over the estimated useful lives of the related assets.

**Transfers of Financial Assets:** Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from total Company assets, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) effective control is not maintained over the transferred assets.

61

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[Table of Contents](#)

**Other Real Estate Owned:** Other real estate owned consists of properties acquired through foreclosure proceedings or acceptance of a deed-in-lieu of foreclosure. These properties are recorded at fair value less estimated costs to sell the property. Initially at transfer if the recorded investment in the loan exceeds the property's fair value at the time of acquisition, a charge-off is recorded against the allowance. If the fair value of the property initially at transfer exceeds the carrying amount of the loan, the excess is recorded either as a recovery to the allowance if a charge-off had previously been recorded, or as a gain on initial transfer in other non-interest income. Subsequent decreases in the property's fair value and operating expenses of the property are recognized through charges to other non-interest expense. The fair value of the property acquired and ongoing valuation is based on third-party appraisals, broker price opinions, recent sales activity, or a combination thereof, subject to management judgment. Due to changing market conditions the amount ultimately realized on the other real estate owned may differ from the amounts reflected in the financial statements.

**Goodwill:** Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Goodwill is assessed annually for impairment, and more frequently if events or changes in circumstances indicate that there may be an impairment. Adverse changes in the economic environment, declining operations, unanticipated competition, loss of key personnel, or other factors could result in a decline in the implied fair value of goodwill. Subsequent reversals of goodwill impairment are prohibited.

**Other Intangibles:** Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability.

The fair values of these assets are generally determined based on appraisals and are subsequently amortized on a straight-line basis or an accelerated basis over their estimated lives. Management assesses the recoverability of these intangible assets at least annually or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount exceeds fair value, an impairment charge is recorded to income.

**Bank-Owned Life Insurance:** Bank-owned life insurance ("BOLI") represents life insurance on the lives of certain current and retired employees who had provided positive consent allowing the Bank to be the beneficiary of such policies. Increases in the cash value of the

policies, as well as insurance proceeds received in excess of the cash value, are recorded in other non-interest income, and are not subject to income taxes.

**Capitalized Servicing Rights:** Capitalized servicing rights are recognized as assets when residential loans are sold and the rights to service those loans are retained.

Capitalized servicing rights are initially recorded at fair value. Fair values are established by using a discounted cash flow model to calculate the present value of estimated future net servicing income. Changes in the fair value of capitalized servicing rights are primarily due to changes in valuation inputs, assumptions, and the collection and realization of expected cash flows. However, these capitalized servicing rights are amortized in proportion to and over the period of estimated net servicing income, which includes prepayment assumptions. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the capitalized servicing rights and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount of these capitalized servicing rights exceeds fair value. The capitalized servicing rights are included in other assets on the consolidated balance sheet.

63

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[Table of Contents](#)

**Derivative Financial Instruments:** Derivative instruments are recognized on the consolidated balance sheet at fair value. On the inception date, management designates whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). Management formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. Both at the hedge's inception and on an ongoing basis, management assesses whether the derivatives used in hedging transactions are highly effective in offsetting the changes in cash flows or fair values of hedged items. The fair value of the derivative is reflected on the Consolidated Balance Sheet in either other assets or liabilities.

Changes in the fair value of derivative instruments that are highly effective and qualify as cash flow hedge are recorded in other comprehensive income (loss). Any ineffective portion is recorded in earnings. For fair value hedges that are highly effective, the gain or loss on the derivative and the loss or gain on the hedged item attributable to the hedged risk are both

62

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[Table of Contents](#)

recognized in earnings, with the differences (if any) representing hedge ineffectiveness. Management discontinues hedge accounting when it is determined that the derivative is no longer highly effective in offsetting changes of the hedged risk on the hedged item, or determines that the designation of the derivative as a hedging instrument is no longer appropriate.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as cash flows of the items being hedged.

Commitments to fund mortgage loans with borrowers (interest rate locks) and forward commitments for the future delivery of these mortgage loans for sale on the secondary market are classified as free standing derivatives. These derivatives are designed to hedge against inherent interest rate and pricing risk associated with selling loans. The commitments to lend generally terminate once the loan is funded, the lock period expires or the borrower decides not to contract for the loan. The forward commitments generally terminate once the loan is sold or the commitment period expires. These commitments are considered derivatives which are accounted for by recognizing their estimated fair value on the Consolidated Balance Sheet in either other assets or other liabilities.

**Senior and Subordinated Borrowings:** Senior borrowings include retail and wholesale repurchase agreements, FHLB overnight, FHLB short-term and long-term advances, federal funds purchased, credit facilities, and line of credit advances. Subordinated borrowings consist of subordinated notes issued to investors. At times, posting of collateral is required for which it, cash, loans and/or investment securities are used.

**Off-Balance Sheet Financial Instruments:** Off-balance sheet financial instruments consist of commitments to extend credit, and unused or unadvanced unfunded loan funds and letters of credit. These financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

**Stock Based Compensation:** Equity award plans include stock options, restricted stock awards restricted stock units and performance stock units, which are described more fully in Note 13 – *Stock Based Compensation Plans* of the Consolidated Financial Statements. Stock based compensation expenses are recognized for stock options and restricted awards based on the fair value of these awards as of the grant date. For restricted stock units and performance stock units the expense is recognized over the vesting periods of the grants. Treasury shares are used for issuing shares upon option exercises, restricted stock awards, restricted stock unit vesting and performance stock unit vesting.

**Employee Stock Purchase Plan:** Compensation expense is recognized based on the difference between the market price and the discounted price of shares issued from participant enrollment over each six month enrollment period.

**Post-retirement Plans:** Non-qualified supplemental retirement benefit payments are provided or promised to certain ex-employees and retired officers based on contractual agreements. This plan is described more fully in Note 8 – *Employee Benefit Plans* of the Consolidated Financial Statements. The plan agreements provide payments in installments over a period of years upon reaching a certain age, retirement or death. Benefit obligations are recognized as the net present value of payments associated with the agreements over the service periods of the participants. Compensation expense is recognized from interest costs and the impact of changes in mortality rates on the benefit obligations.

64

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[Table of Contents](#)

**Pension Plan:** The pension plan is an inherited, frozen, noncontributory, qualified, defined benefit plan for certain employees who met age and service requirements. This plan is described more fully in Note 8 – *Employee Benefit Plans* of the Consolidated Financial Statements. In order to measure the expense associated with the Plans, various assumptions are made including the discount rate, expected return on plan assets, anticipated mortality rates, and expected future healthcare costs. The assumptions are based on historical experience as well as current facts and circumstances. As of the measurement date (December 31, 2022) 2023, plan assets are determined based on fair value, generally representing observable market prices. The projected benefit obligation is primarily determined based on the present value of projected benefit distributions at an assumed discount rate.

63

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[Table of Contents](#)

Net periodic pension benefit costs include interest costs based on an assumed discount rate, the expected return on plan assets based on actuarially derived market-related values, and the amortization of net actuarial losses. Differences between expected and actual results in each year are included in the net actuarial gain or loss amount, which is recognized in other comprehensive income. The net actuarial gain or loss in excess of a 10% corridor is amortized in net periodic benefit cost over the average remaining service period of active participants in the Plans. The prior service credit is amortized over the average remaining service period to full eligibility for participating employees expected to receive benefits.

At the end of each year the Plans' assets and obligations are examined to determine its funded status as of the end of the fiscal year and recognizes those changes in other comprehensive income, net of tax. The plans over or under funded status is recognized in the consolidated balance sheet as an asset or liability, respectively.

**401(k) Plan:** The employer sponsored 401(k) plan to which participants may make contributions in the form of salary deferrals also provides participants with matching contributions in accordance with the terms of the plan. Contributions due under the terms of the defined contribution plans are accrued through compensation expense as earned by employees.

**Income Taxes:** The asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information indicates that it is more likely than not that deferred tax assets will not be realized, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Treasury Stock:** Shares of the Company's common stock that are repurchased are recorded in treasury stock at cost. On the date of subsequent re-issuance, the treasury stock account is reduced by the cost of such stock on an average cost basis.

**Earnings Per Share:** Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in earnings, such as dilutive stock options.

**Revenue Recognition:** Non-interest revenue is recognized in accordance with ASC 606, "Revenue from Contracts with Customers." ASC 606 requires a five step process: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) a performance obligation is satisfied. Revenue recognition under ASC 606 depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or service. See Note 15 – *Revenue from Contracts with Customers* of the Company's Consolidated Financial Statements for additional information on revenue recognition.

**Wealth Management:** Wealth management assets held in a fiduciary or agent capacity are not included in the accompanying Consolidated Balance Sheets because the ownership is held by customers. Trust and investment management fees are primarily comprised of fees earned from investment management, trust administration, tax return preparation, and financial planning. The performance obligation for revenue recognition is generally satisfied over time

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[Table of Contents](#)

and the resulting in monthly fee income, based on the daily accrual of the market value of the investment accounts and the applicable fee rate.

**Marketing Costs:** Marketing costs are expensed as incurred.

**Segment Reporting:** An operating segment is defined as a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and evaluate performance. Operations of the Company are solely within community banking industry and include traditional community banking services, including lending activities, acceptance of demand, savings and time

[Table of Contents](#)

deposits, business services, investment management, trust and third-party brokerage services. These products and services have similar distribution methods, types of customers and regulatory responsibilities. Accordingly, segment information is not presented in the Consolidated Financial Statements.

**Recent Accounting Pronouncements**

The following table provides a brief description of accounting standards that could have a material impact to the Company's consolidated financial statements upon adoption:

Standard	Description	Required Date of Adoption	Effect on financial statements
<b>Standards Not Yet Adopted</b>			
ASU 2022-01 Derivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method	The amendments in this update allow non prepayable financial assets to be included in a closed portfolio hedge using the portfolio layer method. The amendments allow multiple hedged layers to be designated for a single closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments. Additionally, the amendments specify that an entity hedging multiple amounts in a closed portfolio with a single amortizing-notional swap is executing a single-layer hedge, not hedges of multiple layers.	January 1, 2023	We do not expect adoption of this ASU to have a material impact on our consolidated financial statements.
ASU 2022-02 Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings ("TDRs") and Vintage Disclosures	The amendments in this update eliminate TDR recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty.	January 1, 2023	The adoption of this ASU did not have a material impact on our consolidated financial statements.
ASU 2023-02 Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method	The amendments in this update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met.	December 15, 2023, including interim periods within the fiscal year	The adoption of this ASU did not have a material impact on our consolidated financial statements.
<b>Standards Not Yet Adopted</b>			
ASU 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures	The amendments in this update require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income [or loss] by the applicable statutory income tax rate).	For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2024	We do not expect adoption of this ASU to have a material impact on our consolidated financial statements.

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[Table of Contents](#)
**NOTE 2. SECURITIES AVAILABLE FOR SALE**

The following is a summary of securities available for sale:

(in thousands)	Gross		Gross		Gross		Gross	
	Amortized Cost	Gains	Unrealized Losses	Fair Value	Amortized Cost	Gains	Unrealized Losses	Fair Value
<b>December 31, 2022</b>								
<i>Mortgage-backed securities:</i>								
<b>December 31, 2023</b>								
<i>Debt securities:</i>								
Obligations of US Government-sponsored enterprises					\$ 2,021	\$ —	\$ (29)	\$ 1,992
<i>Mortgage-backed securities and collateralized mortgage obligations:</i>								
US Government-sponsored enterprises	\$ 249,838	\$ 14	\$ (34,825)	\$ 215,027	223,602	12	(30,332)	193,282

US Government agency	93,010	21	(10,765)	82,266	85,005	145	(10,937)	74,213
Private label	64,056	34	(3,936)	60,154	60,888	18	(1,855)	59,051
Obligations of states and political subdivisions thereof	121,939	7,149	(21,351)	107,737	119,857	4,515	(14,204)	110,168
Corporate bonds	102,505	33	(8,206)	94,332	105,552	19	(9,703)	95,868
<b>Total securities available for sale</b>	<b>\$ 631,348</b>	<b>\$ 7,251</b>	<b>\$ (79,083)</b>	<b>\$ 559,516</b>	<b>\$ 596,925</b>	<b>\$ 4,709</b>	<b>\$ (67,060)</b>	<b>\$ 534,574</b>

(in thousands)	Gross		Gross		Gross		Gross	
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>December 31, 2021</b>								
<i>Mortgage-backed securities:</i>								
<b>December 31, 2022</b>								
<i>Debt securities:</i>								
Obligations of US Government-sponsored enterprises					\$ 2,692	\$ 5	\$ (37)	\$ 2,660
<i>Mortgage-backed securities and collateralized mortgage obligations:</i>								
US Government-sponsored enterprises	\$ 237,283	\$ 2,289	\$ (3,455)	\$ 236,117	249,838	14	(34,825)	215,027
US Government agency	79,143	1,016	(522)	79,637	90,318	16	(10,728)	79,606
Private label	64,691	142	(138)	64,695	64,056	34	(3,936)	60,154
Obligations of states and political subdivisions thereof	140,585	1,489	(298)	141,776	121,939	7,149	(21,351)	107,737
Corporate bonds	93,994	2,479	(422)	96,051	102,505	33	(8,206)	94,332
<b>Total securities available for sale</b>	<b>\$ 615,696</b>	<b>\$ 7,415</b>	<b>\$ (4,835)</b>	<b>\$ 618,276</b>	<b>\$ 631,348</b>	<b>\$ 7,251</b>	<b>\$ (79,083)</b>	<b>\$ 559,516</b>

#### Credit Quality Information

We monitor the credit quality of available for sale debt securities through credit ratings from various rating agencies and substantial price changes. Credit in an effort to make informed decisions, we utilize credit ratings that express opinions about the credit quality of a security and are utilized us to make informed decisions. Security. Securities are triggered for further review in the quarter if the security has significant fluctuations in ratings, drops below investment grade, investment-grade, or significant pricing changes. For securities without credit ratings, we utilize other financial information indicating the financial health of the underlying municipality, agency, or organization associated with the underlying security.

As of December 31, 2022 December 31, 2023 and 2021, 2022, we carried no allowance on available for sale debt securities in accordance with ASC 326, Measurement of Credit Losses on Financial Instruments.

The amortized cost and estimated fair value of available for sale securities segregated by contractual maturity at December 31, 2022 December 31, 2023 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable.

(in thousands)	Available for sale	
	Amortized Cost	Fair Value
Within 1 year	\$ 195	\$ 197
Over 1 year to 5 years	38,285	35,251

Over 5 years to 10 years	56,507	58,721
Over 10 years	129,457	107,900
Total bonds and obligations	224,444	202,069
Mortgage-backed securities	406,904	357,447
<b>Total securities available for sale</b>	<b>\$ 631,348</b>	<b>\$ 559,516</b>

66 67

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[Table of Contents](#)

(in thousands)	Available for sale	
	Amortized Cost	Fair Value
Within 1 year	\$ 3,038	\$ 3,017
Over 1 year to 5 years	50,471	47,138
Over 5 years to 10 years	45,706	44,887
Over 10 years	128,215	112,986
Total bonds and obligations	227,430	208,028
Mortgage-backed securities and collateralized mortgage obligations	369,495	326,546
<b>Total securities available for sale</b>	<b>\$ 596,925</b>	<b>\$ 534,574</b>

The following table summarizes proceeds from the sale of AFS securities and realized gains and losses:

(in thousands)	Proceeds from Sale of Securities				
	Available for Sale	Realized Gains	Realized Losses	Net	
2023	\$ 2,000	\$ 34	\$ —	\$ 34	
2022	7,130	151	(98)	53	
2021	92,723	2,933	(63)	2,870	

There were no sales of securities in 2023, the \$2.0 million represents proceeds from a called security with a \$34 thousand realized gain.

Securities with unrealized losses, segregated by the duration of their continuous unrealized loss positions, are summarized as follows:

(in thousands)	Less Than Twelve Months		Over Twelve Months		Total	
	Gross		Gross		Gross	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>December 31, 2023</b>						
<b>Debt securities:</b>						
Obligations of US Government-sponsored enterprises	\$ 1	\$ 1,084	\$ 28	\$ 907	\$ 29	\$ 1,991
<b>Mortgage-backed securities and collateralized mortgage obligations:</b>						
US Government-sponsored enterprises	10	3,439	30,322	188,611	30,332	192,050
US Government agency	2	120	10,935	68,891	10,937	69,011

Private label	—	26	1,855	59,007	1,855	59,033
Obligations of states and political subdivisions						
thereof	26	3,099	14,178	101,036	14,204	104,135
Corporate bonds	156	4,913	9,547	84,950	9,703	89,863
<b>Total securities available for sale</b>	<b>\$ 195</b>	<b>\$ 12,681</b>	<b>\$ 66,865</b>	<b>\$ 503,402</b>	<b>\$ 67,060</b>	<b>\$ 516,083</b>

[Table of Contents](#)

The following table summarizes proceeds from the sale of AFS securities and realized gains and losses:

(in thousands)	Proceeds from Sale of Securities					Net	
	Available for Sale	Realized Gains	Realized Losses				
	\$ 7,130	\$ 151	\$ (98)	\$ 53			
2022	\$ 7,130	\$ 151	\$ (98)	\$ 53			
2021	92,723	2,933	(63)	2,870			
2020	153,200	5,492	(47)	5,445			

Securities with unrealized losses, segregated by the duration of their continuous unrealized loss positions, are summarized as follows:

(in thousands)	Less Than Twelve Months		Over Twelve Months		Total	
	Gross		Gross		Gross	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>December 31, 2022</b>						
<i>Mortgage-backed securities:</i>						
US Government-sponsored enterprises	\$ 7,005	\$ 82,483	\$ 27,820	\$ 127,745	\$ 34,825	\$ 210,228
US Government agency	2,902	42,865	7,863	34,988	10,765	77,853
Private label	841	15,694	3,095	44,396	3,936	60,090
<i>Obligations of states and political subdivisions</i>						
thereof	7,990	48,799	13,361	55,702	21,351	104,501
Corporate bonds	4,733	65,279	3,473	25,027	8,206	90,306
<b>Total securities available for sale</b>	<b>\$ 23,471</b>	<b>\$ 255,120</b>	<b>\$ 55,612</b>	<b>\$ 287,858</b>	<b>\$ 79,083</b>	<b>\$ 542,978</b>

	Less Than Twelve Months		Over Twelve Months		Total
	Gross		Gross		

(in thousands)	Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value	
	December 31, 2021											
<b>Mortgage-backed securities:</b>												
US Government-sponsored enterprises	\$ 1,589	\$ 127,780	\$ 1,866	\$ 39,717	\$ 3,455	\$ 167,497						
US Government agency	381	32,628	141	4,548	522	37,176						
Private label	133	40,372	5	16	138	40,388						
Obligations of states and political subdivisions thereof	187	36,878	111	6,129	298	43,007						
Corporate bonds	94	25,358	328	11,922	422	37,280						
<b>Total securities available for sale</b>	<b>\$ 2,384</b>	<b>\$ 263,016</b>	<b>\$ 2,451</b>	<b>\$ 62,332</b>	<b>\$ 4,835</b>	<b>\$ 325,348</b>						

(in thousands)	Less Than Twelve Months		Over Twelve Months		Total	
	Gross		Gross		Gross	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>December 31, 2022</b>						
<b>Debt securities:</b>						
Obligations of US Government-sponsored enterprises	\$ 32	\$ 435	\$ 6	\$ 790	\$ 38	\$ 1,225
<b>Mortgage-backed securities and collateralized mortgage obligations:</b>						
US Government-sponsored enterprises	7,005	82,483	27,820	127,745	34,825	210,228
US Government agency	2,870	42,430	7,857	34,198	10,727	76,628
Private label	841	15,694	3,095	44,396	3,936	60,090
Obligations of states and political subdivisions thereof	7,990	48,799	13,361	55,702	21,351	104,501
Corporate bonds	4,733	65,279	3,473	25,027	8,206	90,306
<b>Total securities available for sale</b>	<b>\$ 23,471</b>	<b>\$ 255,120</b>	<b>\$ 55,612</b>	<b>\$ 287,858</b>	<b>\$ 79,083</b>	<b>\$ 542,978</b>

A summary of securities pledged as collateral for certain deposits and borrowing arrangements for the years ended **December 31, 2022**, **December 31, 2023** and **2021** is as follows:

(in thousands)	December 31, 2022		December 31, 2021		December 31, 2023		December 31, 2022	
	Carrying Value	Estimated Fair Value						
Securities pledged for deposits	\$ 26,807	\$ 23,430	\$ 15,326	\$ 17,214	\$ 24,347	\$ 21,341	\$ 26,807	\$ 23,430
Securities pledged for repurchase agreements	21,001	17,964	25,693	28,431	18,841	16,230	21,001	17,964
Securities pledged for borrowings (1)	40,686	33,962	45,005	47,568	113,775	95,318	40,686	33,962
<b>Total securities pledged</b>	<b>\$ 88,494</b>	<b>\$ 75,356</b>	<b>\$ 86,024</b>	<b>\$ 93,213</b>	<b>\$ 156,963</b>	<b>\$ 132,889</b>	<b>\$ 88,494</b>	<b>\$ 75,356</b>

(1) The Bank pledged securities as collateral for certain borrowing arrangements with the Federal Home Loan Bank of Boston and Federal Reserve Bank of Boston.

We expect to recover the amortized cost basis on all securities in our AFS portfolio. Furthermore, we do not intend to sell nor do we anticipate that we will be required to sell any securities in an unrealized loss position as of December 31, 2022 December 31, 2023, prior to this recovery. Our ability and intent to hold these securities until recovery is supported by our capital and liquidity positions as well as historically low portfolio turnover.

The following summarizes, by investment security type, the impact of securities in an unrealized loss position for greater than 12 months at December 31, 2022 December 31, 2023:

#### Obligations of US Government-sponsored enterprises

8 out of the total 8 securities in our portfolio of AFS obligations of US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 1.44% of the amortized cost of securities in unrealized loss positions. The US Small Business Administration guarantees the contractual cash flows of all of our obligations of US Government-sponsored enterprises. The securities are investment-grade rated and there were no material underlying credit downgrades during the quarter.

#### Table of Contents

#### US Government-sponsored enterprises

484 448 out of the total 514 493 securities in our portfolios portfolio of AFS US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 14.21% 13.64% of the amortized cost of securities in unrealized loss positions. The FNMA Federal National Mortgage Association and FHLMC the Federal Home Loan Mortgage Corporation guarantee the contractual cash flows of all of our US Government- sponsored Government-sponsored enterprises. The securities are investment grade rated and there were no material underlying credit downgrades during the year. All securities are performing.

#### US Government agencies agency

140 130 out of the total 161 151 securities in our portfolios portfolio of AFS US Government agency securities were in unrealized loss positions. Aggregate unrealized losses represented 12.15% 13.68% of the amortized cost of securities in unrealized loss positions. The Government National Mortgage Association ("GNMA") guarantees the contractual cash flows of all of our US government agency securities. The securities are rated investment grade and there were no material underlying credit downgrades during the year. All securities are performing.

#### Private-label Private label

31 26 of the total 34 28 securities in our portfolio of AFS private-label private label mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 6.15% 3.05% of the amortized cost of securities in unrealized loss positions. Based upon the foregoing considerations, and the expectation that our will We expect to receive all of the future contractual cash flows related to the amortized cost on these securities, we do not consider there to be any additional other-than-temporary impairment with respect to these securities.

#### Obligations of states and political subdivisions thereof

67 52 of the total 77 69 securities in our portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 16.96% 12.48% of the amortized cost of securities in unrealized loss positions. We continually monitor the municipal bond sector of the market carefully and periodically evaluate the appropriate level of exposure to the market. At this time, we believe the bonds in this portfolio carry minimal risk of default and we are appropriately compensated for that risk. There were no material underlying credit downgrades during the year. All securities are performing.

#### Corporate bonds

30 of the total 33 35 securities in our portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 8.59% 9.75% of the amortized cost of securities in unrealized loss positions. We review the financial strength of all of these bonds and have concluded that the amortized cost remains supported by the expected future cash flows of these securities. The most recent review includes all bond issuers and their current credit ratings, financial performance and capitalization.

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[Table of Contents](#)
**NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES**

We evaluate risk characteristics of loans based on regulatory call report code with segmentation based on the underlying collateral for certain loan types. The following is a summary of total loans by regulatory call report code segmentation based on underlying collateral for certain loan types:

(in thousands)	December 31,	December 31,	December 31,	December 31,
	2022	2021	2023	2022
Commercial construction	\$ 117,577	\$ 56,263	\$ 154,048	\$ 117,577
Commercial real estate owner occupied	244,814	257,122	310,015	244,814
Commercial real estate non-owner occupied	1,146,674	887,092	1,144,566	1,146,674
Tax exempt	42,879	41,280	43,688	42,879
Commercial and industrial	297,112	307,112	310,883	297,112
Residential real estate	954,968	888,263	940,334	954,968
Home equity	90,865	86,657	87,683	90,865
Consumer other	7,801	8,121	7,832	7,801
<b>Total loans</b>	<b>2,902,690</b>	<b>2,531,910</b>	<b>2,999,049</b>	<b>2,902,690</b>
Allowance for credit losses	25,860	22,718	28,142	25,860
<b>Net loans</b>	<b>\$ 2,876,830</b>	<b>\$ 2,509,192</b>	<b>\$ 2,970,907</b>	<b>\$ 2,876,830</b>

Total unamortized net costs and premiums included in loan totals were as follows:

(in thousands)	December 31,	December 31,	December 31,	December 31,
	2022	2021	2023	2022
Net unamortized loan origination costs	\$ 3,184	\$ 3,014	\$ 3,039	\$ 3,184
Net unamortized fair value discount on acquired loans	(3,506)	(4,758)	(2,891)	(3,506)
<b>Total</b>	<b>\$ (322)</b>	<b>\$ (1,744)</b>	<b>\$ 148</b>	<b>\$ (322)</b>

We exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this footnote. As of December 31, 2022 December 31, 2023 and 2021, 2022, accrued interest receivable for loans totaled \$10.7 million \$11.9 million and \$6.3 million \$10.7 million, respectively, and is included in the "other assets" line item on the Company's consolidated balance sheets.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and subsequent legislation established the Payroll Protection Program ("PPP") are administered directly by the Small Business Administration ("SBA"). As of December 31, 2022, we had no remaining PPP loans and as of December 31, 2021, we had 61 PPP loans outstanding, with an outstanding principal balance of \$6.7 million. PPP loans are included in the commercial and industrial portfolio segment.

Characteristics of each loan portfolio segment are as follows:

**Commercial construction** - Loans in this segment primarily include raw land, land development and construction of commercial and multifamily residential properties. Collateral values are determined based upon appraisals and evaluations of the completed structure in accordance with established policy guidelines. Maximum loan-to-value ratios at origination are governed by established policy guidelines that

are more restrictive than on stabilized commercial real estate transactions. Construction loans are primarily paid by the cash flow generated from the completed structure, such as operating leases, rents, or other operating cash flows from the borrower.

**Commercial real estate owner occupied and non-owner occupied** - Loans in these segments are primarily owner-occupied or income-producing properties. Loans to Real Estate Investment Trusts (REITs) and unsecured loans to developers that closely correlate to the inherent risk in commercial real estate markets are also included. Commercial real estate loans are typically written with amortizing payment structures. Collateral values are determined based upon appraisals and evaluations in accordance with established policy guidelines. Maximum loan-to-value ratios at origination are governed by established policy and regulatory guidelines. Commercial real estate loans are primarily paid by the cash flow generated from the real property, such as operating leases, rents, or other operating cash flows from the borrower.

69

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[Table of Contents](#)

**Tax Exempt** - Loans in this segment primarily include loans to various state and municipal government entities. Loans made into these borrowers may provide us with tax-exempt income. While governed and underwritten similar to commercial loans they do have unique requirements based on established policies. Almost all state and municipal loans are considered a general obligation of the issuing entity. Given the size of many municipal borrowers, borrowings are normally not rated by major rating agencies.

71

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[Table of Contents](#)

**Commercial and industrial loans** - Loans consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment in this segment. Generally loans are secured by assets of the business such as accounts receivable, inventory, marketable securities, other liquid collateral, equipment and other business assets. Some loans in this category may be unsecured or guaranteed by government agencies such as the SBA, U.S. Small Business Administration. Loans are primarily paid by the operating cash flow of the borrower.

**Residential real estate** - All loans in this segment are collateralized by one-to-four family homes. Residential real estate loans held in the loan portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to various underwriting factors. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios within established policy guidelines.

**Home equity** - All loans and lines of credit are made to qualified individuals and are secured by senior or junior mortgage liens on owner-occupied one- to four-family homes, condominiums, or vacation homes. The home equity loan has a fixed rate and is billed as equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed as interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios within established policy guidelines.

**Consumer other** - Loans in this segment include personal lines of credit and amortizing loans made to qualified individuals for various purposes such as auto loans, recreational equipment, overdraft protection or other consumer loans. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines, as applicable.

#### Allowance for Credit Losses

The Allowance for Credit Losses ("ACL") is comprised of the allowance for loan losses and the allowance for unfunded commitments which is accounted for as a separate liability in other liabilities on ~~the~~ our consolidated balance sheet. The level of the ACL represents management's estimate of expected credit losses over the expected life of the loans at the ~~consolidated~~ balance sheet date.

The ~~allowance for credit losses~~ **ACL** is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged off. The ACL is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally larger non-accruing commercial ~~loans~~ and **TDRs**. ~~loans~~.

70 72

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#### [Table of Contents](#)

The activity in the allowance for credit losses for the periods ended are as follows:

(in thousands)	At or for the Year Ended December 31, 2022					At or for the Year Ended December 31, 2023				
	Balance at					Balance at				
	Beginning of		Period			Beginning of		Period		
	Period	Charge Offs	Recoveries	Provision	End of Period		Period	Charge Offs	Recoveries	Provision
Commercial construction	\$ 2,111	\$ —	\$ —	\$ 468	\$ 2,579	\$ 2,579	\$ —	\$ —	\$ —	\$ 1,682
Commercial real estate owner occupied	2,751	—	120	(682)	2,189	2,189	—	—	142	532
Commercial real estate non-owner occupied	5,650	—	—	3,691	9,341	9,341	—	—	—	102
Tax exempt	86	—	—	7	93	93	—	—	—	26
Commercial and industrial	5,369	(8)	341	(2,209)	3,493	3,493	(664)	149	281	3,259
Residential real estate	5,862	(84)	106	1,390	7,274	7,274	(8)	31	55	7,352
Home equity	814	(7)	25	(21)	811	811	(12)	6	(38)	767
Consumer other	75	(267)	12	260	80	80	(289)	19	268	78
<b>Total</b>	<b>\$ 22,718</b>	<b>\$ (366)</b>	<b>\$ 604</b>	<b>\$ 2,904</b>	<b>\$ 25,860</b>	<b>\$ 25,860</b>	<b>\$ (973)</b>	<b>\$ 347</b>	<b>\$ 2,908</b>	<b>\$ 28,142</b>

(in thousands)	At or for the Year Ended December 31, 2021					At or for the Year Ended December 31, 2022						
	Balance at					Balance at						
	Beginning of		Impact of ASC			Beginning of		Impact of				
	Period	326	Charge Offs	Recoveries	Provision	End of Period		Period	Charge Offs	Recoveries	Provision	End of Period

Commercial construction	\$ 824	\$ 1,196	\$ —	\$ 18	\$ 73	\$ 2,111	\$ 2,111	\$ —	\$ —	\$ 468	\$ 2,579
Commercial real estate owner occupied	1,783	708	(403)	290	373	2,751	2,751	—	120	(682)	2,189
Commercial real estate non-owner occupied	7,864	(2,008)	—	4	(210)	5,650	5,650	—	—	3,691	9,341
Tax exempt	58	40	—	—	(12)	86	86	—	—	7	93
Commercial and industrial	3,137	2,996	(59)	77	(782)	5,369	5,369	(8)	341	(2,209)	3,493
Residential real estate	5,010	1,732	(77)	159	(962)	5,862	5,862	(84)	106	1,390	7,274
Home equity	285	603	(154)	51	29	814	814	(7)	25	(21)	811
Consumer other	121	(39)	(205)	9	189	75	75	(267)	12	260	80
<b>Total</b>	<b>\$ 19,082</b>	<b>\$ 5,228</b>	<b>\$ (898)</b>	<b>\$ 608</b>	<b>\$ (1,302)</b>	<b>\$ 22,718</b>	<b>\$ 22,718</b>	<b>\$ (366)</b>	<b>\$ 604</b>	<b>\$ 2,904</b>	<b>\$ 25,860</b>

At or For the Year Ended December 30, 2020						
(in thousands)	Balance at					
	Beginning of		Period			
Commercial construction	\$ 317	\$ —	\$ —	\$ 507	\$ 824	
Commercial real estate owner occupied	2,368	—	—	(585)	1,783	
Commercial real estate non-owner occupied	4,695	(1,137)	173	4,133	7,864	
Tax exempt	67	—	—	(9)	58	
Commercial and industrial	3,262	(593)	30	438	3,137	
Residential real estate	4,213	(54)	13	838	5,010	
Home equity	320	—	—	(35)	285	
Consumer other	111	(384)	56	338	121	
<b>Total</b>	<b>\$ 15,353</b>	<b>\$ (2,168)</b>	<b>\$ 272</b>	<b>\$ 5,625</b>	<b>\$ 19,082</b>	

At or for the Year Ended December 31, 2021						
(in thousands)	Balance at					
	Beginning of		Impact of ASC			Balance at
	Period	326	Charge Offs	Recoveries	Provision	End of Period
Commercial construction	\$ 824	\$ 1,196	\$ —	\$ 18	\$ 73	\$ 2,111
Commercial real estate owner occupied	1,783	708	(403)	290	373	2,751
Commercial real estate non-owner occupied	7,864	(2,008)	—	4	(210)	5,650
Tax exempt	58	40	—	—	(12)	86
Commercial and industrial	3,137	2,996	(59)	77	(782)	5,369
Residential real estate	5,010	1,732	(77)	159	(962)	5,862
Home equity	285	603	(154)	51	29	814
Consumer other	121	(39)	(205)	9	189	75
<b>Total</b>	<b>\$ 19,082</b>	<b>\$ 5,228</b>	<b>\$ (898)</b>	<b>\$ 608</b>	<b>\$ (1,302)</b>	<b>\$ 22,718</b>

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[Table of Contents](#)

### Unfunded Commitments

The allowance for credit losses on unfunded commitments is recognized as a liability (other liabilities on the consolidated balance sheet), with adjustments to the reserve recognized in other non-interest expense in the consolidated statement of operations. The activity in the allowance for credit losses on unfunded commitments for the periods ended was as follows:

(in thousands)	At or for the Years Ended December 31,			At or for the Years Ended December 31,	
	2022	2021	2020	2023	2022
Beginning Balance	\$ 2,152	\$ 359	\$ 314	\$3,910	\$ 2,152
Impact of ASC 326	—	1,616	—	—	1,616
Provision for credit losses	1,758	177	45	(85)	1,758
Ending Balance	<u>\$ 3,910</u>	<u>\$ 2,152</u>	<u>\$ 359</u>	<u>\$3,825</u>	<u>\$ 3,910</u>
					\$ 2,152

**Loan Origination/Risk Management:** We have certain lending policies and procedures in place designed to maximize loan income within an acceptable level of risk. Our Board of Directors ~~review~~ reviews and ~~approve~~ approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management and the Board of Directors with frequent reports related to loan production, loan quality, and concentration of credit, loan delinquencies, non-performing loans and potential problem loans. We seek to diversify the loan portfolio as a means of managing risk associated with fluctuations in economic conditions.

**Credit Quality Indicators:** In monitoring the credit quality of the portfolio, management applies a credit quality indicator and uses an internal risk rating system to categorize commercial loans. These credit quality indicators range from one through nine, with a higher number correlating to increasing risk of loss. Consistent with regulatory guidelines, the Company provides for the classification of loans which are considered to be of lesser quality as special mention, substandard, doubtful, or loss (i.e. risk-rated 6, 7, 8 and 9, respectively).

The following are the definitions of our credit quality indicators:

**Pass:** Loans we consider in the commercial portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes there is a low risk of loss related to these loans considered pass-rated.

**Special Mention:** Loans considered having some potential weaknesses, but are deemed to not carry levels of risk inherent in one of the subsequent categories, are designated as special mention. A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. This might include loans that may require a higher level of supervision or internal reporting because of: (i) declining industry trends; (ii) increasing reliance on secondary sources of repayment; (iii) the poor condition of or lack of control over collateral; or (iv) failure to obtain proper documentation or any other deviations from prudent lending practices. Economic or market conditions which may, in the future, affect the obligor may warrant special mention of the asset. Loans for which an adverse trend in the borrower's operations or an imbalanced position in the balance sheet which has not reached a point where the liquidation is jeopardized may be included in this classification. Special mention loans are not adversely classified and do not expose us to sufficient risks to warrant classification.

**Substandard:** Loans we consider as substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well-defined weakness that jeopardizes liquidation of the debt. Substandard loans include those loans where there is the distinct possibility of some loss of principal, if the deficiencies are not corrected.

**Doubtful:** Loans we consider as doubtful have all of the weaknesses inherent in those loans that are classified as substandard. These loans have the added characteristic of a well-defined weakness which is inadequately protected by the current sound worth and paying capacity of borrower or of the collateral pledged, if any, and calls into question the collectability of the full balance of the loan. The possibility of loss is high but because of certain important and reasonably

72

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[Table of Contents](#)

specific pending factors, which may work to the advantage and strengthening of the loan, its classification as loss is deferred until its more exact status is determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. The entire amount of the loan might not be classified as doubtful when collection of a specific portion appears highly probable. Loans are generally not classified doubtful for an extended period of time (i.e., over a year).

**Loss:** Loans we consider as losses are those considered uncollectible and of such little value that their continuance as an asset is not warranted and the uncollectible amounts are charged-off. This classification does not mean the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they are determined to be uncollectible.

73 74

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[Table of Contents](#)

specific pending factors, which may work to the advantage and strengthening of the loan, its classification as loss is deferred until its more exact status is determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. The entire amount of the loan might not be classified as doubtful when collection of a specific portion appears highly probable. Loans are generally not classified doubtful for an extended period of time (i.e., over a year).

**Loss:** Loans we consider as losses are those considered uncollectible and of such little value that their continuance as an asset is not warranted and the uncollectible amounts are charged-off. This classification does not mean the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they are determined to be uncollectible.

The following table presents our loans by year of origination, loan segmentation and risk indicator as of December 31, 2022 December 31, 2023:

(in thousands)	2022	2021	2020	2019	2018	Prior	Total
<b>Commercial construction</b>							
<b>Risk rating:</b>							
Pass							
Pass	\$ 49,722	\$ 38,837	\$ 2,865	\$ 1,011	\$ 964	\$ —	\$ 93,399
Special mention	—	—	24,178	—	—	—	24,178
Substandard	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 49,722</b>	<b>\$ 38,837</b>	<b>\$ 27,043</b>	<b>\$ 1,011</b>	<b>\$ 964</b>	<b>\$ —</b>	<b>\$ 117,577</b>

Commercial real estate owner occupied								
Risk rating:								
Pass	\$ 22,371	\$ 11,290	\$ 23,014	\$ 31,352	\$ 46,398	\$ 103,295	\$ 237,720	
Special mention	—	—	243	666	173	1,870	2,952	
Substandard	—	—	—	—	77	3,924	4,001	
Doubtful	—	—	—	—	—	141	141	
Total	\$ 22,371	\$ 11,290	\$ 23,257	\$ 32,018	\$ 46,648	\$ 109,230	\$ 244,814	
Commercial real estate non-owner occupied								
Risk rating:								
Pass	\$ 370,856	\$ 228,414	\$ 145,096	\$ 88,111	\$ 35,213	\$ 238,395	\$ 1,106,085	
Special mention	—	21,390	—	127	911	16,612	39,040	
Substandard	—	—	—	—	—	1,404	1,404	
Doubtful	—	—	—	—	—	145	145	
Total	\$ 370,856	\$ 249,804	\$ 145,096	\$ 88,238	\$ 36,124	\$ 256,556	\$ 1,146,674	
Tax exempt								
Risk rating:								
Pass	\$ 8,686	\$ 1,020	\$ 252	\$ 772	\$ 13,231	\$ 18,918	\$ 42,879	
Special mention	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	
Total	\$ 8,686	\$ 1,020	\$ 252	\$ 772	\$ 13,231	\$ 18,918	\$ 42,879	
Commercial and industrial								
Risk rating:								
Pass	\$ 83,151	\$ 26,948	\$ 62,835	\$ 27,491	\$ 9,511	\$ 81,316	\$ 291,252	
Special mention	1,450	—	53	803	201	619	3,126	
Substandard	—	113	111	65	299	2,106	2,694	
Doubtful	—	—	—	—	—	40	40	
Total	\$ 84,601	\$ 27,061	\$ 62,999	\$ 28,359	\$ 10,011	\$ 84,081	\$ 297,112	
Residential real estate								
Performing								
Performing	\$ 195,320	\$ 177,480	\$ 111,021	\$ 69,170	\$ 47,797	\$ 349,795	\$ 950,583	
Nonperforming	—	45	—	49	641	3,650	4,385	
Total	\$ 195,320	\$ 177,525	\$ 111,021	\$ 69,219	\$ 48,438	\$ 353,445	\$ 954,968	
Home equity								
Performing								
Performing	\$ 17,107	\$ 10,638	\$ 8,139	\$ 6,830	\$ 6,997	\$ 40,191	\$ 89,902	
Nonperforming	—	—	—	—	—	963	963	
Total	\$ 17,107	\$ 10,638	\$ 8,139	\$ 6,830	\$ 6,997	\$ 41,154	\$ 90,865	
Consumer other								
Performing								
Performing	\$ 4,321	\$ 1,341	\$ 863	\$ 265	\$ 64	\$ 942	\$ 7,796	
Nonperforming	—	—	5	—	—	—	5	
Total	\$ 4,321	\$ 1,341	\$ 868	\$ 265	\$ 64	\$ 942	\$ 7,801	
<b>Total Loans</b>	<b>\$ 752,984</b>	<b>\$ 517,516</b>	<b>\$ 378,675</b>	<b>\$ 226,712</b>	<b>\$ 162,477</b>	<b>\$ 864,326</b>	<b>\$ 2,902,690</b>	

(in thousands)	2023	2022	2021	2020	2019	Prior	Total
<b>Commercial construction</b>							
<i>Risk rating:</i>							

Pass	\$ 14,040	\$ 99,115	\$ 35,978	\$ 3,992	\$ —	\$ 923	\$ 154,048
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	<u>\$ 14,040</u>	<u>\$ 99,115</u>	<u>\$ 35,978</u>	<u>\$ 3,992</u>	<u>\$ —</u>	<u>\$ 923</u>	<u>\$ 154,048</u>
Current period gross write-offs	—	—	—	—	—	—	—
<b>Commercial real estate owner occupied</b>							
<i>Risk rating:</i>							
Pass	\$ 57,603	\$ 61,015	\$ 43,228	\$ 20,209	\$ 20,462	\$ 91,187	\$ 293,704
Special mention	160	387	7,488	1,596	—	3,066	12,697
Substandard	—	—	—	—	—	3,497	3,497
Doubtful	—	—	—	—	—	117	117
Total	<u>\$ 57,763</u>	<u>\$ 61,402</u>	<u>\$ 50,716</u>	<u>\$ 21,805</u>	<u>\$ 20,462</u>	<u>\$ 97,867</u>	<u>\$ 310,015</u>
Current period gross write-offs	—	—	—	—	—	—	—
<b>Commercial real estate non-owner occupied</b>							
<i>Risk rating:</i>							
Pass	\$ 41,270	\$ 353,613	\$ 199,311	\$ 127,231	\$ 78,759	\$ 238,973	\$ 1,039,157
Special mention	7,809	—	14,134	37,249	15,246	17,108	91,546
Substandard	—	—	—	—	—	13,863	13,863
Doubtful	—	—	—	—	—	—	—
Total	<u>\$ 49,079</u>	<u>\$ 353,613</u>	<u>\$ 213,445</u>	<u>\$ 164,480</u>	<u>\$ 94,005</u>	<u>\$ 269,944</u>	<u>\$ 1,144,566</u>
Current period gross write-offs	—	—	—	—	—	—	—
<b>Tax exempt</b>							
<i>Risk rating:</i>							
Pass	\$ 6,340	\$ 8,468	\$ 787	\$ 208	\$ 590	\$ 27,295	\$ 43,688
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	<u>\$ 6,340</u>	<u>\$ 8,468</u>	<u>\$ 787</u>	<u>\$ 208</u>	<u>\$ 590</u>	<u>\$ 27,295</u>	<u>\$ 43,688</u>
Current period gross write-offs	—	—	—	—	—	—	—
<b>Commercial and industrial</b>							
<i>Risk rating:</i>							
Pass	\$ 80,942	\$ 69,402	\$ 22,205	\$ 38,824	\$ 14,739	\$ 77,273	\$ 303,385
Special mention	364	1,446	—	776	28	3,588	6,202
Substandard	58	94	186	109	95	532	1,074
Doubtful	—	—	—	—	87	135	222
Total	<u>\$ 81,364</u>	<u>\$ 70,942</u>	<u>\$ 22,391</u>	<u>\$ 39,709</u>	<u>\$ 14,949</u>	<u>\$ 81,528</u>	<u>\$ 310,883</u>
Current period gross write-offs	—	—	—	—	5	659	664

74.75

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[Table of Contents](#)

(in thousands)	2023	2022	2021	2020	2019	Prior	Total
<b>Residential real estate</b>							
Performing	\$ 72,395	\$ 194,109	\$ 165,434	\$ 96,016	\$ 62,648	\$ 345,823	\$ 936,425
Nonperforming	—	—	41	—	234	3,634	3,909
Total	\$ 72,395	\$ 194,109	\$ 165,475	\$ 96,016	\$ 62,882	\$ 349,457	\$ 940,334
Current period gross write-offs	—	—	—	—	—	8	8
<b>Home equity</b>							
Performing	\$ 15,582	\$ 15,334	\$ 7,873	\$ 6,633	\$ 4,800	\$ 36,652	\$ 86,874
Nonperforming	—	—	—	—	—	809	809
Total	\$ 15,582	\$ 15,334	\$ 7,873	\$ 6,633	\$ 4,800	\$ 37,461	\$ 87,683
Current period gross write-offs	—	—	—	—	—	12	12
<b>Consumer other</b>							
Performing	\$ 4,128	\$ 1,787	\$ 696	\$ 301	\$ 51	\$ 864	\$ 7,827
Nonperforming	—	—	4	1	—	—	5
Total	\$ 4,128	\$ 1,787	\$ 700	\$ 302	\$ 51	\$ 864	\$ 7,832
Current period gross write-offs	—	52	18	5	—	214	289
<b>Total Loans</b>	<b>\$ 300,691</b>	<b>\$ 804,770</b>	<b>\$ 497,365</b>	<b>\$ 333,145</b>	<b>\$ 197,739</b>	<b>\$ 865,339</b>	<b>\$ 2,999,049</b>

The following table presents our loans by year of origination, loan segmentation and risk indicator as of **December 31, 2021** **December 31, 2022**:

(in thousands)	2021	2020	2019	2018	2017	Prior	Total
<b>Commercial construction</b>							
<i>Risk rating:</i>							
Pass							
Pass	\$ 22,866	\$ 4,787	\$ 19,211	\$ 9,399	\$ —	\$ —	\$ 56,263
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	\$ 22,866	\$ 4,787	\$ 19,211	\$ 9,399	\$ —	\$ —	\$ 56,263
<b>Commercial real estate owner occupied</b>							
<i>Risk rating:</i>							
Pass							
Pass	\$ 12,940	\$ 25,240	\$ 34,782	\$ 49,136	\$ 19,292	\$ 103,144	\$ 244,534
Special mention	—	—	760	—	—	2,659	3,419
Substandard	—	—	1	853	247	7,737	8,838
Doubtful	—	—	—	167	—	164	331
Total	\$ 12,940	\$ 25,240	\$ 35,543	\$ 50,156	\$ 19,539	\$ 113,704	\$ 257,122
<b>Commercial real estate non-owner occupied</b>							
<i>Risk rating:</i>							
Pass							
Pass	\$ 235,646	\$ 172,785	\$ 119,326	\$ 39,663	\$ 136,120	\$ 165,329	\$ 868,869
Special mention	—	—	174	—	—	14,789	14,963
Substandard	—	—	—	—	—	3,097	3,097
Doubtful	—	—	—	—	—	163	163
Total	\$ 235,646	\$ 172,785	\$ 119,500	\$ 39,663	\$ 136,120	\$ 183,378	\$ 887,092
<b>Tax exempt</b>							
<i>Risk rating:</i>							

Pass	\$ 1,249	\$ 299	\$ 968	\$ 14,408	\$ 5,329	\$ 19,027	\$ 41,280
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	<u>\$ 1,249</u>	<u>\$ 299</u>	<u>\$ 968</u>	<u>\$ 14,408</u>	<u>\$ 5,329</u>	<u>\$ 19,027</u>	<u>\$ 41,280</u>
<b>Commercial and industrial</b>							
<i>Risk rating:</i>							
Pass	\$ 77,608	\$ 80,569	\$ 33,405	\$ 16,457	\$ 33,413	\$ 61,594	\$ 303,046
Special mention	—	—	584	468	172	1,396	2,620
Substandard	58	3	512	—	48	578	1,199
Doubtful	—	—	—	—	92	155	247
Total	<u>\$ 77,666</u>	<u>\$ 80,572</u>	<u>\$ 34,501</u>	<u>\$ 16,925</u>	<u>\$ 33,725</u>	<u>\$ 63,723</u>	<u>\$ 307,112</u>
<b>Residential real estate</b>							
Performing	\$ 191,466	\$ 120,495	\$ 83,044	\$ 62,299	\$ 59,642	\$ 364,482	\$ 881,428
Nonperforming	—	—	—	286	178	6,371	6,835
Total	<u>\$ 191,466</u>	<u>\$ 120,495</u>	<u>\$ 83,044</u>	<u>\$ 62,585</u>	<u>\$ 59,820</u>	<u>\$ 370,853</u>	<u>\$ 888,263</u>
<b>Home equity</b>							
Performing	\$ 12,770	\$ 10,461	\$ 9,005	\$ 7,855	\$ 6,474	\$ 38,823	\$ 85,388
Nonperforming	—	—	—	—	—	1,269	1,269
Total	<u>\$ 12,770</u>	<u>\$ 10,461</u>	<u>\$ 9,005</u>	<u>\$ 7,855</u>	<u>\$ 6,474</u>	<u>\$ 40,092</u>	<u>\$ 86,657</u>
<b>Consumer other</b>							
Performing	\$ 2,525	\$ 1,659	\$ 792	\$ 669	\$ 92	\$ 2,379	\$ 8,116
Nonperforming	—	—	—	—	—	5	5
Total	<u>\$ 2,525</u>	<u>\$ 1,659</u>	<u>\$ 792</u>	<u>\$ 669</u>	<u>\$ 92</u>	<u>\$ 2,384</u>	<u>\$ 8,121</u>
<b>Total Loans</b>	<b><u>\$ 557,128</u></b>	<b><u>\$ 416,298</u></b>	<b><u>\$ 302,564</u></b>	<b><u>\$ 201,660</u></b>	<b><u>\$ 261,099</u></b>	<b><u>\$ 793,161</u></b>	<b><u>\$ 2,531,910</u></b>

(in thousands)	2022	2021	2020	2019	2018	Prior	Total
<b>Commercial construction</b>							
<i>Risk rating:</i>							
Pass	\$ 49,722	\$ 38,837	\$ 2,865	\$ 1,011	\$ 964	\$ —	\$ 93,399
Special mention	—	—	24,178	—	—	—	24,178
Substandard	—	—	—	—	—	—	—
Total	<u>\$ 49,722</u>	<u>\$ 38,837</u>	<u>\$ 27,043</u>	<u>\$ 1,011</u>	<u>\$ 964</u>	<u>\$ —</u>	<u>\$ 117,577</u>
<b>Commercial real estate owner occupied</b>							
<i>Risk rating:</i>							
Pass	\$ 22,371	\$ 11,290	\$ 23,014	\$ 31,352	\$ 46,398	\$ 103,295	\$ 237,720
Special mention	—	—	243	666	173	1,870	2,952
Substandard	—	—	—	—	77	3,924	4,001
Doubtful	—	—	—	—	—	141	141
Total	<u>\$ 22,371</u>	<u>\$ 11,290</u>	<u>\$ 23,257</u>	<u>\$ 32,018</u>	<u>\$ 46,648</u>	<u>\$ 109,230</u>	<u>\$ 244,814</u>
<b>Commercial real estate non-owner occupied</b>							
<i>Risk rating:</i>							
Pass	\$ 370,856	\$ 228,414	\$ 145,096	\$ 88,111	\$ 35,213	\$ 238,395	\$ 1,106,085
Special mention	—	21,390	—	127	911	16,612	39,040
Substandard	—	—	—	—	—	1,404	1,404

Doubtful	—	—	—	—	—	145	145
Total	\$ 370,856	\$ 249,804	\$ 145,096	\$ 88,238	\$ 36,124	\$ 256,556	\$ 1,146,674
<b>Tax exempt</b>							
<i>Risk rating:</i>							
Pass	\$ 8,686	\$ 1,020	\$ 252	\$ 772	\$ 13,231	\$ 18,918	\$ 42,879
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	\$ 8,686	\$ 1,020	\$ 252	\$ 772	\$ 13,231	\$ 18,918	\$ 42,879
<b>Commercial and industrial</b>							
<i>Risk rating:</i>							
Pass	\$ 83,151	\$ 26,948	\$ 62,835	\$ 27,491	\$ 9,511	\$ 81,316	\$ 291,252
Special mention	1,450	—	53	803	201	619	3,126
Substandard	—	113	111	65	299	2,106	2,694
Doubtful	—	—	—	—	—	40	40
Total	\$ 84,601	\$ 27,061	\$ 62,999	\$ 28,359	\$ 10,011	\$ 84,081	\$ 297,112

75 76

## [Table of Contents](#)

(in thousands)	2022	2021	2020	2019	2018	Prior	Total
<b>Residential real estate</b>							
Performing	\$ 195,320	\$ 177,480	\$ 111,021	\$ 69,170	\$ 47,797	\$ 349,795	\$ 950,583
Nonperforming	—	45	—	49	641	3,650	4,385
Total	\$ 195,320	\$ 177,525	\$ 111,021	\$ 69,219	\$ 48,438	\$ 353,445	\$ 954,968
<b>Home equity</b>							
Performing	\$ 17,107	\$ 10,638	\$ 8,139	\$ 6,830	\$ 6,997	\$ 40,191	\$ 89,902
Nonperforming	—	—	—	—	—	963	963
Total	\$ 17,107	\$ 10,638	\$ 8,139	\$ 6,830	\$ 6,997	\$ 41,154	\$ 90,865
<b>Consumer other</b>							
Performing	\$ 4,321	\$ 1,341	\$ 863	\$ 265	\$ 64	\$ 942	\$ 7,796
Nonperforming	—	—	5	—	—	—	5
Total	\$ 4,321	\$ 1,341	\$ 868	\$ 265	\$ 64	\$ 942	\$ 7,801
<b>Total Loans</b>	<b>\$ 752,984</b>	<b>\$ 517,516</b>	<b>\$ 378,675</b>	<b>\$ 226,712</b>	<b>\$ 162,477</b>	<b>\$ 864,326</b>	<b>\$ 2,902,690</b>

## **Past Dues**

The following is a summary of past due loans for the periods ended:

December 31, 2022	December 31, 2023
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(in thousands)	30-59	60-89	90+	Total Past Due	Current	Total Loans	30-59	60-89	90+	Total Past Due	Current	Total Loans
Commercial construction	\$ —	\$ —	\$ —	\$ —	\$ 117,577	\$ 117,577	\$ —	\$ —	\$ —	\$ —	\$ 154,048	\$ 154,048
Commercial real estate owner occupied	385	—	—	385	244,429	244,814	—	—	—	—	310,015	310,015
Commercial real estate non-owner occupied	45	145	139	329	1,146,345	1,146,674	—	—	103	103	1,144,463	1,144,566
Tax exempt	—	—	—	—	42,879	42,879	—	—	—	—	43,688	43,688
Commercial and industrial	169	—	9	178	296,934	297,112	465	59	330	854	310,029	310,883
Residential real estate	803	348	2,029	3,180	951,788	954,968	1,520	627	1,999	4,146	936,188	940,334
Home equity	216	160	246	622	90,243	90,865	600	—	337	937	86,746	87,683
Consumer other	41	8	—	49	7,752	7,801	10	2	—	12	7,820	7,832
<b>Total</b>	<b>\$1,659</b>	<b>\$661</b>	<b>\$2,423</b>	<b>\$ 4,743</b>	<b>\$2,897,947</b>	<b>\$2,902,690</b>	<b>\$2,595</b>	<b>\$688</b>	<b>\$2,769</b>	<b>\$ 6,052</b>	<b>\$2,992,997</b>	<b>\$2,999,049</b>

(in thousands)	December 31, 2021						December 31, 2022					
	30-59	60-89	90+	Total Past Due	Current	Total Loans	30-59	60-89	90+	Total Past Due	Current	Total Loans
Commercial construction	\$ —	\$ —	\$ —	\$ —	\$ 56,263	\$ 56,263	\$ —	\$ —	\$ —	\$ —	\$ 117,577	\$ 117,577
Commercial real estate owner occupied	1,190	7	1	1,198	255,924	257,122	385	—	—	385	244,429	244,814
Commercial real estate non-owner occupied	—	—	—	—	887,092	887,092	45	145	139	329	1,146,345	1,146,674
Tax exempt	—	—	—	—	41,280	41,280	—	—	—	—	42,879	42,879
Commercial and industrial	31	318	185	534	306,578	307,112	169	—	9	178	296,934	297,112
Residential real estate	5,010	1,238	1,416	7,664	880,599	888,263	803	348	2,029	3,180	951,788	954,968
Home equity	699	149	101	949	85,708	86,657	216	160	246	622	90,243	90,865
Consumer other	29	—	2	31	8,090	8,121	41	8	—	49	7,752	7,801
<b>Total</b>	<b>\$6,959</b>	<b>\$1,712</b>	<b>\$1,705</b>	<b>\$ 10,376</b>	<b>\$2,521,534</b>	<b>\$2,531,910</b>	<b>\$1,659</b>	<b>\$661</b>	<b>\$2,423</b>	<b>\$ 4,743</b>	<b>\$2,897,947</b>	<b>\$2,902,690</b>

[Table of Contents](#)

**Non-Accrual Loans**

The following is a summary of non-accrual loans for the periods ended:

(in thousands)	December 31, 2023		
	Nonaccrual	Related Allowance	90+ Days Past
	Due and Accruing	—	—
Commercial construction	\$ —	\$ —	\$ —
Commercial real estate owner occupied	103	44	—
Commercial real estate non-owner occupied	340	224	—
Tax exempt	—	—	—
Commercial and industrial	363	6	—
Residential real estate	3,908	1,131	118
Home equity	809	1	22
Consumer other	5	—	—
<b>Total</b>	<b>\$ 5,528</b>	<b>\$ 1,406</b>	<b>\$ 140</b>

(in thousands)	December 31, 2022		
	Nonaccrual	Related Allowance	90+ Days Past
	Due and Accruing	—	—
Commercial construction	\$ —	\$ —	\$ —
Commercial real estate owner occupied	439	360	—
Commercial real estate non-owner occupied	550	411	—
Tax exempt	—	—	—
Commercial and industrial	207	145	—
Residential real estate	4,385	1,361	202
Home equity	963	57	14
Consumer other	5	—	—
<b>Total</b>	<b>\$ 6,549</b>	<b>\$ 2,334</b>	<b>\$ 216</b>

Our policy is to reverse previously recorded interest income when a loan is placed on non-accrual, as such, the Company did not record any interest income on its non-accrual for the year ended December 31, 2023 and 2022.

[Table of Contents](#)

(in thousands)	December 31, 2021		
	Nonaccrual	Nonaccrual With No Related Allowance	90+ Days Past
	Due and Accruing		
Commercial construction	\$ —	\$ —	\$ —
Commercial real estate owner occupied	783	424	—
Commercial real estate non-owner occupied	622	459	—
Tax exempt	—	—	—
Commercial and industrial	677	542	30
Residential real estate	6,835	2,537	41
Home equity	1,269	305	63
Consumer other	5	—	—
<b>Total</b>	<b>\$ 10,191</b>	<b>\$ 4,267</b>	<b>\$ 134</b>

Our policy is to reverse previously recorded interest income when a loan is placed on non-accrual, as such, the Company did not record any interest income on its non-accrual for the year ended December 31, 2022 and 2021.

**Collateral Dependent Loans**

Loans that do not share risk characteristics are evaluated on an individual basis. For loans that are individually evaluated and collateral dependent, financial loans where we have determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and we expect repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date.

The following table presents the amortized cost basis of collateral-dependent loans by loan portfolio segment for the periods ended.

(in thousands)	December 31, 2022		December 31, 2021		December 31, 2023		December 31, 2022	
	Real Estate	Other						
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial real estate owner occupied	439	—	783	—	104	—	439	—
Commercial real estate non-owner occupied	550	—	622	—	340	—	550	—
Tax exempt	—	—	—	—	—	—	—	—
Commercial and industrial	91	116	385	292	229	134	91	116
Residential real estate	4,385	—	6,835	—	3,908	—	4,385	—
Home equity	963	—	1,269	—	808	—	963	—
Consumer other	5	—	5	—	5	—	5	—
<b>Total</b>	<b>\$ 6,433</b>	<b>\$ 116</b>	<b>\$ 9,899</b>	<b>\$ 292</b>	<b>\$ 5,394</b>	<b>\$ 134</b>	<b>\$ 6,433</b>	<b>\$ 116</b>

**Loan Modifications to Borrowers Experiencing Financial Difficulty**

In January 2023, the Company adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" which eliminated the accounting guidance for TDRs while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This guidance was applied on a prospective basis. Upon adoption of this guidance, we are no longer required to establish a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective category and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the ACL.

These modifications typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. There were no qualifying modifications for the twelve months ended December 31, 2022.

The following table presents the amortized cost basis of loans that were both experiencing financial difficulty and modified during the twelve months ended December 31, 2023, by class and by type of modification.

(in thousands)	Principal Forgiveness	Payment Delay	Term Extension	Interest		Combination Interest Rate Reduction and	
				Rate Reduction		Term Extension	% of Total Class of Loans
				Interest	Reduction		
<b>Twelve Months Ended December 31, 2023</b>							
Commercial construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	— %
Commercial real estate owner occupied	—	—	—	—	—	—	—
Commercial real estate non-owner occupied	—	—	—	—	—	—	—
Tax exempt	—	—	—	—	—	—	—
Commercial and industrial	—	65	184	—	—	—	0.08
Residential real estate	—	—	—	99	—	—	0.01
Home equity	—	—	—	—	—	—	—
Consumer other	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ 65</b>	<b>\$ 184</b>	<b>\$ 99</b>	<b>\$ —</b>	<b>—</b>	<b>0.01 %</b>

77 79

#### [Table of Contents](#)

#### **Troubled Debt Restructuring Loans**

The loan portfolio also includes certain loans that have been modified in a TDR, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as non-performing at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. TDRs are evaluated individually for impairment and may result in a specific allowance amount allocated to an individual loan. There were no modifications qualifying as TDRs for the years ended December 31, 2022 and 2021. The following table include the recorded investment and number of modifications identified during the period ended.

(in thousands)	Year Ended December 31, 2020			
	Number of Modifications	Pre-Modification Outstanding		Post-Modification Outstanding
		Balance	Balance	Reserve
Commercial construction	—	\$ —	\$ —	\$ —
Commercial real estate owner occupied	—	—	—	—
Commercial real estate non-owner occupied	1	54	244	24
Tax exempt	—	—	—	—
Commercial and industrial	7	315	325	—

Residential real estate	—	—	—	—
Home equity	1	26	24	—
Consumer other	1	9	8	—
<b>Total</b>	<b>10</b>	<b>\$ 404</b>	<b>\$ 601</b>	<b>\$ 24</b>

The following table summarizes presents the types financial effect of loan concessions modifications made for to borrowers experiencing financial difficulty during the period presented: twelve months ended December 31, 2023.

(in thousands)	December 31, 2020	
	Post-Modification	
	Number of Modifications	Outstanding Balance
Interest only payments and maturity concession	—	\$ —
Interest rate, forbearance and maturity concession	4	384
Amortization and maturity concession	—	—
Amortization concession	—	—
Amortization, interest rate and maturity concession	—	—
Forbearance	—	—
Forbearance and interest only payments	1	24
Forbearance and maturity concession	—	—
Forbearance, amortization and maturity concession	—	—
Maturity concession	5	193
Other	—	—
<b>Total</b>	<b>10</b>	<b>\$ 601</b>

For the year ended December 31, 2022 there were no loans that were restructured that had subsequently defaulted during the period. The evaluation of certain loans individually for specific impairment includes loans that were previously classified as TDRs or continue to be classified as TDRs.

(in thousands)	Weighted-Average	Weighted-Average	Weighted-Average
	Months of Payment Delay	Months of Term Extension	Interest Rate Reduction
<b>Twelve Months Ended December 31, 2023</b>			
Commercial construction	—	—	— %
Commercial real estate owner occupied	—	—	—
Commercial real estate non-owner occupied	—	—	—
Tax exempt	—	—	—
Commercial and industrial	3.00	13.45	—
Residential real estate	—	—	1.38
Home equity	—	—	—
Consumer other	—	—	—
<b>Total</b>	<b>3.00</b>	<b>13.45</b>	<b>1.38 %</b>

#### Foreclosure

Residential mortgage loans collateralized by real estate that are in the process of foreclosure as of December 31, 2023 and December 31, 2022 and December 31, 2021 totaled \$253 \$430 thousand and \$574 \$253 thousand, respectively.

#### **Loan Concentrations**

Loan concentrations in specific industries may occasionally emerge as a result of economic conditions, changes in local demands, natural loan growth and runoff. At **December 31, 2022** December 31, 2023, the largest industry concentration outside of commercial real estate was the hospitality industry which represents **12% 11%** or **\$336.4 million** \$334.8 million of the Company's total loan portfolio, compared with **11% 12%** or **\$283.3 million** \$336.4 million at **December 31, 2021** December 31, 2022.

#### **Loans to Related Parties**

In the ordinary course of business, the Bank has made loans at prevailing rates and terms to directors, officers and other related parties. In management's opinion, such loans do not present more than the normal risk of collectability or incorporate other unfavorable features, and were made under terms that are consistent with the Bank's lending policies.

Loan to related parties at **December 31, 2022** December 31, 2023 and **December 31, 2021** December 31, 2022 are summarized below:

(in thousands)	2022	2021	2023	2022
Beginning balance	\$ 3,379	\$ 6,131	\$ 4,763	\$ 3,379
Changes in composition(1)	112	—	—	112
New loans	1,576	335	—	1,576
Less: repayments	(304)	(3,087)	(718)	(304)
Ending balance	\$ 4,763	\$ 3,379	\$ 4,045	\$ 4,763

(1) Adjustments to reflect changes in status of directors and officers for each year presented.

#### **Mortgage Banking**

##### **Loans sold**

For the years ended **December 31, 2022** December 31, 2023 and **2021, 2022**, we sold **\$38.6 million** \$38.8 million and **\$189.3 million** \$38.6 million, respectively, of residential mortgage loans on the secondary market, which resulted in a net gain on sale of loans (net of costs, including direct and indirect origination costs) of **\$161** \$192 thousand and **\$4.1 million**, \$161 thousand, respectively.

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#### [Table of Contents](#)

#### **Loans Held for Sale**

We had \$2.2 million of loans held for sale as of December 31, 2023, there no loans held for sale as of December 31, 2022. Loans held for sale at **December 31, 2021** December 31, 2023 had an unpaid principal balance of **\$5.4 million** \$2.1 million, respectively. The interest rate exposure on loans held for sale is mitigated through forward delivery commitments with certain approved secondary market investors. We had no forward delivery commitments as of December 31, 2022 and forward delivery Forward sale commitments had a notional amount of \$200 thousand \$5.0 million at December 31, 2021 December 31, 2023, and we had no open forward sale commitments at December 31, 2022. Refer to Note 10 for further discussion of forward delivery commitments.

#### **Servicing Assets**

The Bank sells loans in the secondary market and retains the ability to service many of these loans. The Bank earns fees for the servicing provided. At year end **2022** 2023 and **2021, 2022**, the Bank was servicing loans for participants totaling **\$616.0 million** \$595.2 million and **\$653.4 million** \$616.0 million, respectively. Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in servicing assets relate primarily to changes in prepayments that result from shifts in interest rates. Contractually-specified

servicing fees were \$1.6 million for the year ended **2022** **2023** and **2021**, **2022**, and are included as a component of other income within non-interest income.

Servicing rights activity during **2022** **2023** and **2021**, **2022**, included in other assets, was as follows:

(in thousands)	At or for the Twelve Months Ended		At or for the Twelve Months Ended	
	December 31,		December 31,	
	2022	2021	2023	2022
Balance at beginning of year	\$ 3,673	\$ 3,353	\$ 3,383	\$ 3,673
Additions	421	565	338	421
Amortization	(711)	(245)	(560)	(711)
Balance at end of year	<u>\$ 3,383</u>	<u>\$ 3,673</u>	<u>\$ 3,161</u>	<u>\$ 3,383</u>

79

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[Table of Contents](#)

**NOTE 4. PREMISES AND EQUIPMENT**

Premises and equipment at **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** are summarized as follows:

(in thousands, except years)	Estimated Useful		Estimated Useful			
	2022	2021	Life	2023	2022	Life
Land	\$ 4,934	\$ 4,949	N/A	\$ 3,882	\$ 4,934	N/A
Buildings and improvements	56,239	55,499	5-39 years	60,168	56,239	5-39 years
Furniture and equipment	16,225	14,661	3-8 years	17,630	16,225	3-8 years
Premises and equipment, gross	77,398	75,109		81,680	77,398	
Accumulated depreciation	(29,776)	(25,727)		(33,393)	(29,776)	
<b>Premises and equipment, net</b>	<b>\$ 47,622</b>	<b>\$ 49,382</b>		<b>\$ 48,287</b>	<b>\$ 47,622</b>	

Depreciation expense for the years ended **December 31, 2022**, **2021** **December 31, 2023** and **2020** **2022** amounted to \$4.2 million, and was \$4.6 million and \$4.8 million, respectively, for the year ended December 31, 2021.

Premises held for sale for the years ended **December 31, 2022** **December 31, 2023**, **2022** and **2021** were \$1.2 million, \$252 thousand and \$226 thousand, respectively, and are included in other assets. We measure premises held for sale at the lower of amortized cost or estimated fair value less 6% selling costs. We did not sell any premises held for sale in **2023** or **2022**. We sold \$579 thousand of premises held for sale in **2021** for a net loss of \$291 thousand. We sold \$802 thousand of premises held for sale. There were no impairment charges recognized in **2020** at a gain of \$122 thousand, **2023** and **2022**. There were \$157 thousand of impairment charges recognized in **2021** due to the demolition of a building and no impairment charges recognized in **2022** and **2020**.

8081

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**NOTE 5. GOODWILL AND OTHER INTANGIBLES**

The activity impacting goodwill in **2022** **2023** and **2021** **2022** is as follows:

(in thousands)	2022	2021	2023	2022
Balance at beginning of year	\$ 119,477	\$ 119,477	\$ 119,477	\$ 119,477
Acquisition	—	—	—	—
Balance at end of year	<u>\$ 119,477</u>	<u>\$ 119,477</u>	<u>\$ 119,477</u>	<u>\$ 119,477</u>

In the fourth quarter of **2022** **2023**, we completed annual goodwill impairment testing using balance sheet and market data as of **September 30, 2022** **September 30, 2023**. The analysis was performed at the consolidated Bank level, which is considered the smallest reporting unit carrying goodwill. No goodwill impairment was recognized for the years ended **December 31, 2022** **December 31, 2023**, **2021** **2022** and **2020** **2021**.

The components of other intangible assets in **2022** **2023** and **2021** **2022** are as follows:

(in thousands)	2022			2023		
	Gross	Accumulated	Net Intangible	Gross	Accumulated	Net Intangible
	Intangible Assets	Amortization	Assets	Intangible Assets	Amortization	Assets
Core deposit intangible (non-maturity deposits)	\$ 9,483	\$ (4,948)	\$ 4,535	\$ 9,483	\$ (5,686)	\$ 3,797
Customer list and other intangibles	2,118	(852)	1,266	2,118	(1,046)	1,072
<b>Total</b>	<b>\$ 11,601</b>	<b>\$ (5,800)</b>	<b>\$ 5,801</b>	<b>\$ 11,601</b>	<b>\$ (6,732)</b>	<b>\$ 4,869</b>

  

(in thousands)	2021			2022		
	Gross	Accumulated	Net Intangible	Gross	Accumulated	Net Intangible
	Intangible Assets	Amortization	Assets	Intangible Assets	Amortization	Assets
Core deposit intangible (non-maturity deposits)	\$ 9,483	\$ (4,210)	\$ 5,273	\$ 9,483	\$ (4,948)	\$ 4,535
Customer list and other intangibles	2,118	(658)	1,460	2,118	(852)	1,266
<b>Total</b>	<b>\$ 11,601</b>	<b>\$ (4,868)</b>	<b>\$ 6,733</b>	<b>\$ 11,601</b>	<b>\$ (5,800)</b>	<b>\$ 5,801</b>

Other intangible assets are amortized on a straight-line basis over their estimated lives, which range from five years to 11 years. Amortization expenses related to intangibles totaled \$932 thousand in **2023**, \$932 thousand in **2022** and \$940 thousand in **2021** and \$1.0 million in **2020**, **2021**.

The estimated aggregate future amortization expense for other intangible assets remaining at year end **2022** **2023** is as follows:

(in thousands)	Other Intangible Assets	Other Intangible Assets					
		2023	2024	2025	2026	2027	2028
2023	\$ 932						
2024	932	\$ 932					
2025	932	932	\$ 932				
2026	932	932	932	\$ 932			
2027	932	932	932	932	\$ 959		
2028						1,141	182
and thereafter							

Total	\$ 5,801	\$ 4,869
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8182

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[Table of Contents](#)

**NOTE 6. DEPOSITS**

A summary of time deposits at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 are as follows:

(in thousands)	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Time less than \$100,000	\$ 157,263	\$ 181,586	\$ 381,902	\$ 157,263
Time \$100,000 through \$250,000	118,655	169,645	163,933	118,655
Time \$250,000 or more	47,521	74,301	154,425	47,521
<b>Total</b>	<b>\$ 323,439</b>	<b>\$ 425,532</b>	<b>\$ 700,260</b>	<b>\$ 323,439</b>

At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the scheduled maturities by year for time deposits are as follows:

(in thousands)	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Within 1 year	\$ 262,338	\$ 318,692	\$ 670,961	\$ 262,338
Over 1 year to 2 years	37,937	71,247	17,000	37,937
Over 2 years to 3 years	12,936	18,201	6,932	12,936
Over 3 years to 4 years	5,410	8,498	3,434	5,410
Over 4 years to 5 years	4,319	6,751	1,795	4,319
Over 5 years	499	2,143	138	499
<b>Total</b>	<b>\$ 323,439</b>	<b>\$ 425,532</b>	<b>\$ 700,260</b>	<b>\$ 323,439</b>

Included in time deposits are brokered deposits of \$219.6 million and \$15.1 million at December 31, 2023 and \$16.1 million at December 31, 2022 and December 31, 2021, respectively. Also included in time deposits are reciprocal deposits of \$43.3 million and \$27.4 million at December 31, 2023 and \$17.3 million at December 31, 2022 and December 31, 2021, respectively.

**NOTE 7. BORROWED FUNDS**

Borrowed funds at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 are summarized, as follows:

(dollars in thousands)	December 31, 2022		December 31, 2021		December 31, 2023		December 31, 2022	
	Weighted		Weighted		Weighted		Weighted	
	Carrying Value	Average Rate						
<b>Short-term borrowings</b>								

Advances from the FHLB	\$ 318,000	3.84 %	\$ 75,000	0.30 %	\$ 232,300	5.46 %	\$ 318,000	3.84 %
Advances from the FRB								
BTFP					30,000	4.90	—	—
Other borrowings	13,369	0.13	19,802	0.17	8,465	0.13	13,369	0.13
Total short- term borrowings	331,369	2.20	94,802	0.21	270,765	2.88	331,369	2.20
Long-term borrowings								
Advances from the FHLB	2,588	0.48	23,598	1.08	279	4.39	2,588	0.48
Subordinated borrowings	60,289	4.95	60,124	4.34	60,461	6.22	60,289	4.95
Total long- term borrowings	62,877	4.76	83,722	3.42	60,740	6.21	62,877	4.76
<b>Total</b>	<b>\$ 394,246</b>	<b>2.45 %</b>	<b>\$ 178,524</b>	<b>0.91 %</b>	<b>\$ 331,505</b>	<b>3.24 %</b>	<b>\$ 394,246</b>	<b>2.45 %</b>

Short-term debt includes Federal Home Loan Bank of Boston ("FHLB") FHLB advances with a remaining maturity of less than one year. We also maintain a \$1.0 million secured line of credit with the FHLB that bears a daily adjustable rate calculated by the FHLB. There was no outstanding balance on the FHLB line of credit for the years ended December 31, 2022 December 31, 2023 and 2021, 2022.

We also have capacity to borrow funds on a secured basis utilizing the Borrower in Custody program Federal Reserve Discount Window and the Discount Window at the FRB. At December 31, 2022 Bank Term Funding Program ("BTFP"). As of December 31, 2023, our available secured line of credit at the FRB was \$156.6 million versus \$90.4 million versus \$64.7 million in 2021. We have pledged certain loans and 2022. The BTFP enables depository institutions to pledge eligible investment securities to the FRB to support this arrangement. There were no borrowings Federal Reserve with borrowing capacity based upon the FRB as par value of December 31, 2022 and December 31, 2021, the collateral.

8283

#### [Table of Contents](#)

During the fourth quarter of 2023, we entered into the Bank Term Funding Program for \$30 million at a fixed rate of 4.85% for a period of one year. The BTFP allows us to manage borrowing costs while obtaining favorable prepayment terms, as we may prepay at any time without penalty. There were no borrowings with the FRB at December 31, 2022.

We maintain an unused unsecured federal funds line of credit with a correspondent bank that has an aggregate overnight borrowing capacity of \$50 million as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022. There was no outstanding balance on the line of credit as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

Long-term FHLB advances consist of advances with a remaining maturity of more than one year. The advances outstanding at December 31, 2022 December 31, 2023 include \$288 \$279 thousand and \$298 \$288 thousand in 2022 of amortizing advances. There were no callable advances in 2022 2023 and \$20.0 million of callable advances as of December 31, 2021 2022. All FHLB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally residential first mortgage loans and certain securities.

A summary of maturities of FHLB advances as of December 31, 2022 December 31, 2023 is as follows:

(in thousands, except rates)	Weighted Average		Weighted Average	
	Amount	Rate	Amount	Rate
2023	\$ 318,000	3.84 %		
2024	2,300	—	\$232,300	5.46 %
2025	—	—	—	—
2026	—	—	—	—
2027	—	—	—	—
2028	—	—	—	—
Thereafter	288	4.29	279	4.39
<b>Total FHLB advances</b>	<b>\$ 320,588</b>	<b>3.81 %</b>	<b>\$232,579</b>	<b>5.46 %</b>

We executed a Subordinated Note Purchase Agreement with an aggregate of \$40.0 million of subordinated notes (the "Notes") to accredited investors on November 26, 2019. The Notes have a maturity date of December 1, 2029 and bear a fixed interest rate of 4.63% through December 1, 2024 payable semi-annually in arrears. From December 1, 2024 and thereafter the interest rate shall be reset quarterly to an interest rate per annum equal to the then current three-month Secured Overnight Financing Rate ("SOFR") plus 3.27%. We have the option beginning with the interest payment date of December 1, 2024, and on any scheduled payment date thereafter, to redeem the Notes, in whole or in part upon prior approval of the Federal Reserve. The transaction included debt issuance costs of \$331 \$158 thousand and \$496 \$331 thousand net of amortization as of December 31, 2022 December 31, 2023 and 2021 2022 respectively, which are netted against the subordinated debt.

We also have \$20.6 million in floating Junior Subordinated Deferrable Interest Debentures ("Debentures") issued by NHTB Capital Trust II ("Trust II") and NHTB Capital Trust III ("Trust III"), which are both Connecticut statutory trusts. The Debentures were issued on March 30, 2004, carry a variable interest rate of three-month LIBOR SOFR plus 2.79%, and mature in 2034. The debt is callable by the Company at the time when any interest payment is made. Trust II and Trust III are considered variable interest entities for which we are not the primary beneficiary. Accordingly, Trust II and Trust III are not consolidated into our financial statements.

#### Repurchase Agreements

We can raise additional liquidity by entering into repurchase agreements at our discretion. In a security repurchase agreement transaction, we will generally sell a security, agreeing to repurchase either the same or substantially identical security on a specified later date, at a greater price than the original sales price. The difference between the sale price and purchase price is the cost of the proceeds, which is recorded as interest expense on the consolidated statements of income. The securities underlying the agreements are delivered to counterparties as security for the repurchase obligations. Since the securities are treated as collateral and the agreement does not qualify for a full transfer of effective control, the transactions do not meet the criteria to be classified as sales, and are therefore considered secured borrowing transactions for accounting purposes. Payments on such borrowings are interest only until the scheduled repurchase date. In a repurchase agreement, we are subject to the risk that the purchaser may default at maturity and not return the securities underlying the agreements. In order to minimize this potential risk, we either deal with established firms when entering into these transactions or with customers whose agreements stipulate that the securities underlying the agreement are not delivered to the customer and instead are held in segregated safekeeping accounts by our safekeeping agents.

Our repurchase agreements accounted for as secured borrowings, as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 are as follows:

(in thousands)	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
<b>Customer Repurchase Agreements</b>				
US Government-sponsored enterprises	\$ 13,369	\$ 19,802	\$ 8,465	\$ 13,369
<b>Total</b>	<b>\$ 13,369</b>	<b>\$ 19,802</b>	<b>\$ 8,465</b>	<b>\$ 13,369</b>

#### NOTE 8. EMPLOYEE BENEFIT PLANS

##### *Pension Plans*

We maintain a legacy, employer-sponsored defined benefit pension plan (the "Plan") for which participation and benefit accruals were frozen on January 13, 2017. Accordingly, no employees are permitted to commence participation in the Plan and future salary increases and years of credited service are not considered when computing an employee's benefits under the Plan. As of December 31, 2022 December 31, 2023, all minimum Employee Retirement Income Security Act ("ERISA") funding requirements have been met.

The following tables set forth information about the plan for the year ended December 31, 2022 December 31, 2023 and 2021 2022:

(in thousands)	2022	2021	2023	2022
<b>Change in projected benefit obligation:</b>				
Projected benefit obligation at beginning of year	\$ 8,601	\$ 9,650	\$ 6,245	\$ 8,601
Interest cost	236	233	318	236
Actuarial loss	(2,114)	(406)		
Actuarial Gain/(loss)			119	(2,114)
Benefits paid	(326)	(326)	(317)	(326)
Settlements	(152)	(550)	—	(152)
Projected benefit obligation at end of year	<u>6,245</u>	<u>8,601</u>	<u>6,365</u>	<u>6,245</u>
<b>Change in fair value of plan assets:</b>				
Fair value of plan assets at beginning of year	12,422	12,040	9,044	12,422
Expected return on plan assets	(2,900)	1,258	622	(2,900)
Benefits paid	(326)	(326)	(317)	(326)
Settlements	(152)	(550)	—	(152)
Fair value of plan assets at end of year	<u>9,044</u>	<u>12,422</u>	<u>9,349</u>	<u>9,044</u>
Overfunded status	\$ (2,799)	\$ (3,821)	\$ (2,984)	\$ (2,799)
Amounts recognized in consolidated balance sheet:				
Other assets	\$ 2,799	\$ 3,821	\$ 2,984	\$ 2,799

Net periodic pension cost/(benefit) is comprised of the following for the years ended December 31, 2022 December 31, 2023 and 2021 2022:

(in thousands)	2022	2021	2023	2022
Interest cost	\$ 236	\$ 233	\$ 318	\$ 236
Expected return on plan assets	(612)	(712)	(355)	(612)
Unrecognized loss			53	—
Net periodic pension benefit	\$ (376)	\$ (479)	\$ 16	\$ (376)

Amounts recognized in other comprehensive income for the years ended December 31, 2022 December 31, 2023 and 2021 2022 included:

(in thousands)	2022	2021	2023	2022
Net actuarial loss (gain)	\$ 1,391	\$ (953)	\$ (148)	\$ 1,391
Recognized loss			(53)	—
Net period pension benefit (credit)	(376)	(479)	16	(376)
Total recognized in other comprehensive income	\$ 1,015	\$ (1,432)	\$ (185)	\$ 1,015

Change in plan assets and benefit obligations recognized in accumulated other comprehensive income as of December 31, 2022 December 31, 2023 and 2021 2022 are as follows:

(in thousands)	2022	2021	2023	2022
Net actuarial loss (gain)	\$ 1,391	\$ (953)	\$ (148)	\$ 1,391
Net actuarial (gain) loss			(53)	—
Recognized loss			—	—
Prior service cost	119	1,072	—	—
Total accumulated other comprehensive loss (pre-tax)	\$ 1,510	\$ 119	—	—
Amounts Recognized in accumulated other comprehensive (gain) loss (pre-tax)			\$ (201)	\$ 1,391

The after tax components of accumulated other comprehensive loss, which have not yet been recognized in net periodic pension cost, related to the Plan are a net loss of \$1.2 million. We expect to make no cash contributions to the pension trust during the 2023 2024 fiscal year. The amount expected to be amortized from accumulated other comprehensive loss into net periodic pension cost over the next fiscal year is zero.

The principal actuarial assumptions used at December 31, 2022 December 31, 2023 and 2021 2022 were as follows:

	2022	2021	2023	2022
Projected benefit obligation				
Discount rate	5.23 %	2.80 %	5.00 %	5.23 %
Net periodic pension cost				
Discount rate	2.80 %	2.46 %	5.23 %	2.80 %
Long-term rate of return on plan assets	5.00	6.00	4.00	5.00

The discount rate that is used in the measurement of the pension obligation is determined by comparing the expected future retirement payment cash flows of the plan to the Citigroup Above Median Double-A Curve as of the measurement date. The expected long-term rate of return on Plan assets reflects expectations of future returns as applied to the plan's target allocation of asset classes. In estimating that rate, appropriate consideration was given to historical returns earned by equities and fixed income securities.

Our overall investment strategy with respect to the Plan's assets is to maintain assets at a level that will sufficiently cover future beneficiary obligations while achieving long term growth in assets. The Plan's targeted asset allocation is 20% equity securities and 80% fixed-income securities primarily consisting of long-term products.

The fair values for investment securities are determined by quoted prices in active markets, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

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[Table of Contents](#)

The fair value of the Plan's assets by category and level within fair value hierarchy are as follows at **December 31, 2022** **December 31, 2023** and **2021**: **2022**:

(in thousands)	2022			2023		
	Total	Level 1	Level 2	Total	Level 1	Level 2
<b>Equity mutual funds:</b>						
Large-cap	\$ 660	\$ 660	\$ —	\$ 680	\$ 680	\$ —
Mid-cap	210	210	—	195	195	—
Small-cap	214	214	—	199	199	—
International	420	420	—	391	391	—
<b>Fixed income funds:</b>						
Fixed-income - core plus	—	—	—	—	—	—
Intermediate duration	—	—	—	—	—	—
Long duration	6,294	6,294	—	6,698	6,698	—
Common stock	724	724	—	663	663	—
Common/collective trusts - large-cap	206	—	206	180	—	180
Cash equivalents - money market	316	316	—	343	343	—
<b>Total</b>	<b>\$ 9,044</b>	<b>\$ 8,838</b>	<b>\$ 206</b>	<b>\$9,349</b>	<b>\$9,169</b>	<b>\$ 180</b>

(in thousands)	2021			2022		
	Total	Level 1	Level 2	Total	Level 1	Level 2
<b>Equity mutual funds:</b>						
Large-cap	\$ 952	\$ 952	\$ —	\$ 660	\$ 660	\$ —
Mid-cap	296	296	—	210	210	—
Small-cap	302	302	—	214	214	—
International	573	573	—	420	420	—
<b>Fixed income funds:</b>						
Long duration	9,042	9,042	—	6,294	6,294	—
Common stock	653	653	—	724	724	—
Common/collective trusts - large-cap	244	—	244	206	—	206
Cash equivalents - money market	360	360	—	316	316	—
<b>Total</b>	<b>\$ 12,422</b>	<b>12,178</b>	<b>\$ 244</b>	<b>\$9,044</b>	<b>\$8,838</b>	<b>\$ 206</b>

The Plan did not hold any assets classified as Level 3, and there were no transfers between levels during **2022** **2023** and **2021**, **2022**.

Estimated benefit payments under our pension plan over the next 10 years at **December 31, 2022** **December 31, 2023** are as follows:

(in thousands)	Payments		Payments	
	\$	347	\$	342
2023				
2024			345	\$ 342
2025			341	337
2026			405	402
2027			407	404
2028-2032			2,206	
2028				423

2029-2033		2,233
<b>Total</b>	\$ <b>4,051</b>	<b>\$ 4,141</b>

**Non-qualified Supplemental Executive Retirement Plan**

We have non-qualified supplemental executive retirement agreements with certain retired officers. The agreements provide supplemental retirement benefits payable in installments over a period of years upon retirement or death. This agreement provides a stream of future payments in accordance with individually defined vesting schedules upon retirement, termination, or in the event that the participating executive leaves the Company following a change of control event.

86 87

[Table of Contents](#)

The following table sets forth changes in benefit obligation, changes in plan assets, and the funded status of the plan as of and for the years ended **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**:

(in thousands)	2022	2021	2023	2022
<b>Change in benefit obligation:</b>				
Projected benefit obligation at beginning of year	\$ 2,606	\$ 2,969	\$ 2,093	\$ 2,606
Service cost	—	—	—	—
Interest cost	54	44	97	54
Actuarial (gain) loss	(307)	(147)	(5)	(307)
Benefits paid	(260)	(260)	(260)	(260)
Projected benefit obligation at end of year	\$ 2,093	\$ 2,606	\$ 1,925	\$ 2,093
<b>Change in fair value of plan assets:</b>				
Fair value of plan assets at beginning of year	\$ —	\$ —	\$ —	\$ —
Expected return on plan assets	—	—	—	—
Contributions by employer	260	260	260	260
Benefits paid	(260)	(260)	(260)	(260)
Fair value of plan assets at end of year	\$ —	\$ —	\$ —	\$ —
Underfunded status	\$ 2,093	\$ 2,606	\$ 1,925	\$ 2,093
Amounts recognized in consolidated balance sheet				
Other liabilities	\$ 2,093	\$ 2,606	\$ 1,925	\$ 2,093

Net periodic benefit cost is comprised of the following for the years ended **December 31, 2022** **December 31, 2023** and **2021**:

(in thousands)	2022	2021	2023	2022
Interest cost	\$ 54	\$ 44	\$ 97	\$ 54
Expected return on plan assets	—	—	—	—
Amortization of unrecognized actuarial loss	37	43	7	37
Net periodic benefit cost	\$ 91	\$ 87	\$ 104	\$ 91

Amounts recognized in other comprehensive income for the years ended **December 31, 2022** **December 31, 2023** and **2021** included:

(in thousands)	2022	2021	2023	2022
Net actuarial (gain) loss	\$ (382)	\$ (137)		
Net actuarial loss (gain)			\$100	(\$382)
Amortization of unrecognized actuarial loss	(37)	(43)	(7)	(37)
Total recognized in other comprehensive loss	<u>\$ (419)</u>	<u>\$ (180)</u>		
Total recognized in other comprehensive loss (gain)			\$ 93	(\$419)

Change in plan assets and benefit obligations recognized in accumulated other comprehensive income in **2022** **2023** and **2021** **2022** are as follows:

(in thousands)	2022	2021	2023	2022
Accumulated other comprehensive loss at beginning of the year (pre-tax)	\$ 599	\$ 779	180	599
Actuarial (gain) loss	(382)	(137)		
Actuarial loss (gain)			100	(382)
Amortization of actuarial loss	(37)	(43)	(7)	(37)
Accumulated other comprehensive loss at end of year (pre-tax)	<u>\$ 180</u>	<u>\$ 599</u>	<u>\$ 273</u>	<u>\$ 180</u>

The after tax components of accumulated other comprehensive loss, which have not yet been recognized in net periodic benefit cost, related to the non-qualified supplemental executive retirement agreements are a net loss of **\$139** **\$204** thousand. The amount expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is **\$8** **\$10** thousand.

**87 88**

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#### Table of Contents

The principal actuarial assumptions used at **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** were as follows:

	2022	2021	2023	2022
Discount rate beginning of year	2.12 %	1.56 %	4.92 %	2.12 %
Discount rate end of year	4.92	2.12	4.72	4.92

The discount rate used in the measurement of the non-qualified supplemental executive retirement plan obligation is determined by comparing the expected future retirement payment cash flows to the Citigroup Above Median Double- A Curve as of the measurement date.

We expect to contribute the following amounts to fund benefit payments under the supplemental executive retirement plans:

(in thousands)	Payments	Payments
2023	\$ 260	
2024	260	\$ 260
2025	231	231
2026	221	221
2027	221	221
2028-2032	<u>1,106</u>	
2028		221
2029-2033		1,104
<b>Total</b>	<b>\$ 2,299</b>	<b>\$ 2,258</b>

#### 401(k) Plan

We maintain a Section 401(k) savings plan for substantially all of its employees. Employees are eligible to participate in the 401(k) Plan on the first day of any quarter following their date of hire and attainment of age 21½. Under the plan, we make a matching contribution of a portion of the amount contributed by each participating employee, up to a percentage of the employee's annual salary. The plan allows for supplementary profit sharing contributions by Bar Harbor, at its discretion, for the benefit of participating employees. The total expense for this plan in 2023, 2022, 2021, and 2020 2021 was \$1.2 million.

#### Other Plans

As a result of the acquisition of a business combination in 2017, we assumed salary continuation agreements for supplemental retirement income with certain prior executives and senior officers along with an executive indexed supplemental retirement plan for one prior executive. The total liability for these agreements included in other liabilities was \$6.0 million \$6.3 million at December 31, 2022 December 31, 2023 and \$8.0 million \$6.5 million at December 31, 2021 December 31, 2022. Expense recorded in 2023 was \$255 thousand compared to income recorded in 2022 and 2021 was \$1.2 million and \$312 thousand, respectively. We recorded expense income in 2020 2021 under these agreements of \$793 \$312 thousand.

We also assumed split-dollar life insurance agreements from the 2017 business combination with an accrued liability of \$709 thousand at December 31, 2023 and \$679 thousand at December 31, 2022 and \$876 thousand at December 31, 2021. We recorded income expense for the split-dollar life insurance agreements of \$30 thousand in 2023 and income of \$197 thousand in 2022 and 2021. We recorded expense of \$22 thousand in 2021. We recorded expense of \$65 thousand in 2020.

88 89

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#### [Table of Contents](#)

#### NOTE 9. INCOME TAXES

The following table summarizes the current and deferred components of income tax expense (benefit) for each of the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020: 2021:

(in thousands)	2022	2021	2020	2023	2022	2021
Current:						
Federal tax expense	\$ 10,444	\$ 7,796	\$ 7,165	\$10,704	\$10,444	\$7,796
State tax expense	1,551	1,106	1,280	2,247	1,551	1,106
Total current tax expense	11,995	8,902	8,445	12,951	11,995	8,902
Deferred tax (benefit) expense	(707)	427	(38)	(686)	(707)	427
Total income tax expense	\$ 11,288	\$ 9,329	\$ 8,407	\$12,265	\$11,288	\$9,329

The following table reconciles the expected federal income tax expense (computed by applying the federal statutory tax rate of 21%) to recorded income tax expense for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020: 2021:

(in thousands, except ratios)	2022			2021			2020			2023			2022			2021		
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate										
Statutory tax rate	\$11,517	21.00 %	\$10,210	21.00 %	\$ 8,747	21.00 %	\$11,995	21.00 %	\$11,517	21.00 %	\$10,210	21.00 %						

Increase (decrease) resulting from:												
State taxes, net of federal benefit	1,477	2.69	1,280	2.63	1,120	2.69	1,539	2.69	1,477	2.69	1,280	2.63
Tax exempt interest	(1,003)	(1.83)	(1,240)	(2.55)	(1,301)	(3.12)	(1,042)	(1.82)	(1,003)	(1.83)	(1,240)	(2.55)
Federal tax credits	(241)	(0.44)	(582)	(1.20)	(330)	(0.79)	(471)	(0.82)	(241)	(0.44)	(582)	(1.20)
Officers' life insurance	(498)	(0.91)	(466)	(0.96)	(403)	(0.97)	(578)	(1.01)	(498)	(0.91)	(466)	(0.96)
Gain on disposal of low income housing tax credit	—	—	—	—	147	0.35	—	—	—	—	—	—
Stock-based compensation plans	(16)	(0.03)	(73)	(0.15)	52	0.12	17	0.03	(16)	(0.03)	(73)	(0.15)
Other	52	0.10	200	0.42	375	0.90	805	1.40	52	0.10	200	0.42
Effective tax rate	<u>\$11,288</u>	<u>20.58 %</u>	<u>\$ 9,329</u>	<u>19.19 %</u>	<u>\$ 8,407</u>	<u>20.18 %</u>	<u>\$12,265</u>	<u>21.47 %</u>	<u>\$11,288</u>	<u>20.58 %</u>	<u>\$ 9,329</u>	<u>19.19 %</u>

The net deferred tax asset was \$23.0 million at December 31, 2023 and \$24.4 million at December 31, 2022 and \$5.5 million at December 31, 2021.

89.90

#### [Table of Contents](#)

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2022 December 31, 2023 and 2021 2022 are summarized below:

(in thousands)	2022		2021		2023		2022	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Allowance for credit losses	\$ 5,964	\$ —	\$ 5,214	\$ —	\$ 6,593	\$ —	\$ 5,964	\$ —
Deferred compensation	3,812	—	3,965	—	3,678	—	3,812	—
Unrealized gain or loss on securities available for sale	16,586	—	—	1,055	14,702	—	16,586	—
Unrealized gain or loss on derivatives	539	—	201	—	312	—	539	—
Depreciation	—	1,723	—	2,033	—	1,101	—	1,723
Deferred loan origination fees, net	129	—	432	—	—	129	129	—
Non-accrual interest	600	—	593	—	632	—	600	—
Branch acquisition costs and goodwill	—	1,644	—	1,326	—	1,987	—	1,644
Core deposit intangible	—	806	—	929	—	689	—	806
Acquisition fair value adjustments	213	—	208	—	232	—	213	—
Prepaid expenses	—	271	—	205	—	297	—	271

Mortgage servicing rights	—	780	—	843	—	741	—	780
Equity compensation	736	—	668	—	1,016	—	736	—
Prepaid pension	—	616	—	739	—	669	—	616
Contract incentives	766	—	820	—	564	—	766	—
Right of use asset	—	1,863	—	2,129	—	1,611	—	1,863
Lease liability	1,961	—	2,213	—	1,716	—	1,961	—
Other	839	—	492	—	758	—	840	—
<b>Total</b>	<b>\$ 32,145</b>	<b>\$ 7,703</b>	<b>\$ 14,806</b>	<b>\$ 9,259</b>	<b>\$30,203</b>	<b>\$ 7,224</b>	<b>\$32,146</b>	<b>\$ 7,703</b>

We have determined that a valuation allowance is not required for its net deferred tax asset since it is more likely than not that this asset is realizable principally through future taxable income and future reversal of existing temporary differences.

GAAP requires the measurement of unrecorded tax benefits related to uncertain tax positions. An unrecorded tax benefit is the difference between the tax benefit of a position taken, or expected to be taken, on a tax return and the benefit recorded for accounting purposes. At **December 31, 2022** **December 31, 2023** and **2021**, we had no unrecorded tax benefits and do not expect our position to significantly change within the next 12 months.

We are subject to income tax in the U.S. federal jurisdiction and also in the states of Maine, New Hampshire and Massachusetts. We are no longer subject to examination by taxing authorities for years before **2019**, **2020**.

**9091**

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#### [Table of Contents](#)

#### **NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

We use derivative instruments to minimize fluctuations in earnings and cash flows caused by interest rate volatility. Our interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets or liabilities so the changes in interest rates do not have a significant effect on net interest income. Thus, all of our derivative contracts are considered to be interest rate contracts.

We recognize our derivative instruments on the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, we designate whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). We formally document relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking hedge transactions. We also assess, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in cash flows or fair values of hedged items. Changes in fair value of derivative instruments that are highly effective and qualify as cash flow hedges are recorded in other comprehensive income or loss.

We offer derivative products in the form of interest rate swaps, to commercial loan customers to facilitate their risk management strategies. These instruments are executed through Master Netting Arrangements ("MNA") with financial institution counterparties or Risk Participation Agreements ("RPA") with commercial bank counterparties, for which we **assumes** **assume** a pro rata share of the credit exposure associated with a borrower's performance related to the derivative contract with the counterparty.

Information about derivative assets and liabilities at **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, follows:

December 31, 2022

	Weighted				
	Notional	Average	Fair Value	Location Fair	
	Amount	Maturity	Asset (Liability)	Value Asset	
	(in thousands)	(in years)	(in thousands)		(Liability)
<b>Cash flow hedges:</b>					
Interest rate swap on wholesale fundings	\$ 75,000	2.0	\$ 4,978	Other assets	
Interest rate swap on variable rate loans	50,000	3.2	(4,941)	Other liabilities	
Total cash flow hedges	125,000		37		
<b>Fair value hedges:</b>					
Interest rate swap on securities	37,190	6.6	4,774	Other assets	
Total fair value hedges	37,190		4,774		
<b>Economic hedges:</b>					
Customer Loan Swaps-MNA Counterparty	191,987	5.8	(20,287)	Other liabilities	
Customer Loan Swaps-RPA Counterparty	113,928	6.0	—	Other liabilities	
Customer Loan Swaps-Customer	305,914	5.9	20,287	Other assets	
Total economic hedges	611,829		—		
<b>Total</b>	<b>\$ 774,019</b>		<b>\$ 4,811</b>		

91

[Table of Contents](#)

	December 31, 2021				
	Weighted				
	Notional	Average	Fair Value	Location Fair	
	Amount	Maturity	Asset (Liability)	Value Asset	
	(in thousands)	(in years)	(in thousands)		(Liability)
<b>Cash flow hedges:</b>					
Interest rate swap on wholesale fundings	\$ 75,000	3.0	\$ (121)	Other liabilities	
Interest rate swap on variable rate loans	50,000	4.2	(756)	Other liabilities	
Total cash flow hedges	125,000		(877)		
<b>Fair value hedges:</b>					
Interest rate swap on securities	37,190	7.6	(530)	Other liabilities	
Total fair value hedges	37,190		(530)		
<b>Economic hedges:</b>					
Forward sale commitments	16,600	0.1	15	Other assets	
Customer Loan Swaps-MNA Counterparty	260,102	6.2	(9,429)	Other liabilities	
Customer Loan Swaps-RPA Counterparty	115,285	6.7	(4,421)	Other liabilities	
Customer Loan Swaps-Customer	375,387	6.4	13,850	Other assets	
Total economic hedges	767,374		15		
<b>Non-hedging derivatives:</b>					
Interest rate lock commitments	14,059	0.1	283	Other assets	
Total non-hedging derivatives	14,059		283		

<b>Total</b>	<b>\$ 943,623</b>	<b>\$ (1,109)</b>
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As of December 31, 2022, and 2021, the following amounts were recorded on the balance sheet related to cumulative basis adjustments for fair value hedges:

	Location of Hedged Item on Balance Sheet	Carrying Amount of Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment in Carrying Amount	December 31, 2023			
				Weighted			
				Notional	Average	Fair Value	Location Fair
<b>December 31, 2022</b>							
<b>Cash flow hedges:</b>				<b>Amount (in thousands)</b>	<b>Maturity (in years)</b>	<b>Asset (Liability) (in thousands)</b>	<b>Value Asset (Liability)</b>
Interest rate swap on wholesale funding			\$ 75,000	1.0	\$ 2,803	Other assets	
Interest rate swap on variable rate loans			50,000	2.2	(3,459)	Other liabilities	
Total cash flow hedges			125,000			(656)	
<b>Fair value hedges:</b>							
Interest rate swap on securities	Securities Available for Sale	\$ 30,045	\$ (7,145)	37,190	5.6	3,844	Other assets
Total fair value hedges				37,190		3,844	
<b>December 31, 2021</b>							
Interest rate swap on securities	Securities Available for Sale	\$ 39,726	\$ 2,536				
<b>Economic hedges:</b>							
Forward sale commitments				5,000	—	(20)	Other liabilities
Customer Loan Swaps- MNA							
Counterparty			184,826	5.0	(14,842)	Other liabilities	
Customer Loan Swaps- RPA							
Counterparty			142,199	4.9	(286)	Other liabilities	
Customer Loan Swaps- Customer				327,025	4.9	15,128	Other assets

Total economic hedges	659,050	(20)
<b>Non-hedging derivatives:</b>		
Interest rate lock commitments	3,153	0.1
Total non-hedging derivatives	3,153	63
<b>Total</b>	<b>\$ 824,393</b>	<b>\$ 3,231</b>

92

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[Table of Contents](#)

	December 31, 2022				
	Weighted				
	Notional	Average	Fair Value	Location Fair	
	Amount	Maturity	Asset (Liability)	Value Asset	
	(in thousands)	(in years)	(in thousands)		(Liability)
<b>Cash flow hedges:</b>					
Interest rate swap on wholesale funding	\$ 75,000	2.0	\$ 4,978	Other assets	
Interest rate swap on variable rate loans	50,000	3.2	(4,941)	Other liabilities	
Total cash flow hedges	125,000		37		
<b>Fair value hedges:</b>					
Interest rate swap on securities	37,190	6.6	4,774	Other assets	
Total fair value hedges	37,190		4,774		
<b>Economic hedges:</b>					
Forward sale commitments	—	—	—	Other assets	
Customer Loan Swaps-MNA Counterparty	191,987	5.8	(20,287)	Other liabilities	
Customer Loan Swaps-RPA Counterparty	113,928	6.0	—	Other liabilities	
Customer Loan Swaps-Customer	305,914	5.9	20,287	Other assets	
Total economic hedges	611,829		—		
<b>Non-hedging derivatives:</b>					
Interest rate lock commitments	—	—	—	Other assets	
Total non-hedging derivatives	—		—		
<b>Total</b>	<b>\$ 774,019</b>		<b>\$ 4,811</b>		

**Information about derivative assets**

As of December 31, 2023, and **liabilities** 2022, the following amounts were recorded on the balance sheet related to cumulative basis adjustments for December 31, 2022 and December 31, 2021, follows: **fair value hedges**:

Year Ended December 31, 2022						
(in thousands)	Amount of Gain (Loss)		Amount of Gain (Loss)			
	Recognized in		Reclassified		Location of	
	Other	Location of Gain (Loss)	from Other		Gain (Loss)	Amount of
	Comprehensive	Reclassified from Other	Comprehensive	Recognized in	Income	Recognized
	Income (1)	Comprehensive Income	Income	Income	in Income	in Income
<b>Cash flow hedges:</b>						
Interest rate swap on wholesale funding	\$ 3,922	Interest expense	\$ —	Interest expense	\$ 475	
Interest rate swap on variable rate loans	(3,218)	Interest income	—	Interest income	(601)	
Total cash flow hedges	704	—	—	—	(126)	
<b>Fair value hedges:</b>						
Interest rate swap on securities	—	Interest income	—	Interest income	140	
Total fair value hedges	—	—	—	—	140	
<b>Economic hedges:</b>						
Forward commitments	—	Other income	—	Mortgage banking income	(15)	
Total economic hedges	—	—	—	—	(15)	
<b>Non-hedging derivatives:</b>						
Interest rate lock commitments	—	Other income	—	Mortgage banking income	(283)	
Total non-hedging derivatives	—	—	—	—	(283)	
<b>Total</b>	<b>\$ 704</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (284)</b>	

(1) As of December 31, 2022, we do not expect any gains or losses from accumulated other comprehensive income into earnings within the next 12 months.

	Location of Hedged Item on Balance Sheet	Carrying Amount of Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment in Carrying Amount	
			December 31, 2023	
			Assets	Carrying Amount
December 31, 2023	Interest rate swap on securities	Securities available for sale \$ 32,680	\$ (4,510)	
December 31, 2022	Interest rate swap on securities	Securities available for sale \$ 30,045	\$ (7,145)	

[Table of Contents](#)

Year Ended December 31, 2021						
(in thousands)	Amount of		Amount of			
	Gain (Loss)		Gain (Loss)			
	Recognized in		Reclassified		Location of	
	Other	Location of Gain (Loss)	from Other	Comprehensive	Gain (Loss)	Amount of
	Comprehensive	Reclassified from Other	Comprehensive	Recognized in	Recognized	in Income
Income		Comprehensive Income	Income	Income	Income	in Income
<b>Cash flow hedges:</b>						
Interest rate swap on wholesale funding	\$ 1,950	Interest expense	\$ —	Interest expense	\$ (727)	
Interest rate swap on variable rate loans	(582)	Interest income	—	Interest income	211	
<b>Total cash flow hedges</b>	<b>1,368</b>		<b>—</b>		<b>(516)</b>	
<b>Fair value hedges:</b>						
Interest rate swap on securities	3,087	Interest income	—	Interest income	(566)	
<b>Total economic hedges</b>	<b>3,087</b>		<b>—</b>		<b>(566)</b>	
<b>Economic hedges:</b>						
Forward commitments	—	Other income	—	Mortgage banking income	110	
<b>Total economic hedges</b>	<b>—</b>		<b>—</b>		<b>110</b>	
<b>Non-hedging derivatives:</b>						
Interest rate lock commitments	—	Other income	—	Mortgage banking income	261	
<b>Total non-hedging derivatives</b>	<b>—</b>		<b>—</b>		<b>261</b>	
<b>Total</b>	<b>\$ 4,455</b>		<b>\$ —</b>		<b>\$ (711)</b>	

Information about derivative assets and liabilities for December 31, 2023 and December 31, 2022, follows:

Year Ended December 31, 2023						
(in thousands)	Amount of		Amount of			
	Gain (Loss)		Gain (Loss)			
	Recognized in		Reclassified		Location of	
	Other	Location of Gain (Loss)	from Other	Comprehensive	Gain (Loss)	Amount of
	Comprehensive	Reclassified from Other	Comprehensive	Recognized in	Recognized	in Income
Income		Comprehensive Income	Income	Income	Income	in Income
<b>Cash flow hedges:</b>						
Interest rate swap on wholesale funding	\$ (1,687)	Interest expense	\$ —	Interest expense	\$ 3,062	
Interest rate swap on variable rate loans	1,157	Interest income	—	Interest income	(2,167)	
<b>Total cash flow hedges</b>	<b>(530)</b>		<b>—</b>		<b>895</b>	

<b>Fair value hedges:</b>				
Interest rate swap on securities	1,314	Interest income	—	Interest income
Total fair value hedges	1,314		—	1,359
				1,359
<b>Economic hedges:</b>				
Forward commitments	—	Other income	—	Mortgage banking income
Total economic hedges	—		—	(20)
				(20)
<b>Non-hedging derivatives:</b>				
Interest rate lock commitments	—	Other expense	—	Mortgage banking income
Total non-hedging derivatives	—		—	(20)
				(20)
<b>Total</b>	<b>\$ 784</b>		<b>\$ —</b>	<b>\$ 2,214</b>

(1) As of December 31, 2023, we do not expect any gains or losses from accumulated other comprehensive income into earnings within the next 12 months.

[Table of Contents](#)

Year Ended December 31, 2022						
(in thousands)	Amount of Gain (Loss)		Amount of Gain (Loss)			
	Recognized in		Reclassified		Location of	Amount of
	Other	Location of Gain (Loss)	from Other	Comprehensive	Gain (Loss)	Gain (Loss)
	Comprehensive	Reclassified from Other	Comprehensive	Income	Recognized in	Recognized in Income
	Income	Comprehensive Income	Income	Income	Income	in Income
<b>Cash flow hedges:</b>						
Interest rate swap on wholesale funding	\$ 3,922	Interest expense	\$ —	Interest expense	\$ 475	
Interest rate swap on variable rate loans	(3,218)	Interest income	—	Interest income	(601)	
Total cash flow hedges	704		—		(126)	
<b>Fair value hedges:</b>						
Interest rate swap on securities	—	Interest income	—	Interest income	140	
Total economic hedges	—		—		140	
<b>Economic hedges:</b>						
Forward commitments	—	Other income	—	Mortgage banking income	(15)	
Total economic hedges	—		—		(15)	
<b>Non-hedging derivatives:</b>						
Interest rate lock commitments	—	Other income	—	Mortgage banking income	— (283)	

Total non-hedging derivatives	—	—	(283)
<b>Total</b>	<b>\$ 704</b>	<b>\$ —</b>	<b>\$ (284)</b>

[Table of Contents](#)

The effect of cash flow hedging and fair value accounting on the consolidated statements of income for the years ended **December 31, 2022**, **December 31, 2023** and **2021: 2022**:

(in thousands)	Year Ended December 31, 2022					Year Ended December 31, 2023						
	Interest and Dividend		Interest Expense			Non-interest	Interest and Dividend		Interest Expense			
	Income		Income				Income		Income			
	Securities	Non-interest	Securities	Non-interest	Securities		Securities	Non-interest	Securities	Non-interest	Securities	
	Loans	and other	Deposits	Borrowings	Income		Loans	and other	Deposits	Borrowings	Income	
<b>Income and expense line items presented in the consolidated statements of income</b>	\$ 107,797	\$ 18,729	\$ 7,344	\$ 5,501	\$ 35,321		\$ 149,420	\$ 24,762	\$ 38,232	\$ 18,275	\$ 35,829	
<b>The effects of cash flow and fair value hedging:</b>												
<b>Gain (loss) on cash flow hedges:</b>												
Interest rate swap on wholesale funding	—	—	—	475	—		—	—	—	3,062	—	
Interest rate swap on variable rate loans	(601)	—	—	—	—		(2,167)	—	—	—	—	
<b>Gain (loss) on fair value hedges:</b>												
Interest rate swap on securities	—	140	—	—	—		—	1,359	—	—	—	

  

(in thousands)	Year Ended December 31, 2021					Year Ended December 31, 2022						
	Interest and Dividend		Interest Expense			Non-interest	Interest and Dividend		Interest Expense			
	Income		Income				Income		Income			
	Securities	Non-interest	Securities	Non-interest	Securities		Securities	Non-interest	Securities	Non-interest	Securities	
	Loans	and other	Deposits	Borrowings	Income		Loans	and other	Deposits	Borrowings	Income	
<b>Income and expense line items presented in the consolidated statements of income</b>	\$ 107,797	\$ 18,729	\$ 7,344	\$ 5,501	\$ 35,321		\$ 149,420	\$ 24,762	\$ 38,232	\$ 18,275	\$ 35,829	
<b>The effects of cash flow and fair value hedging:</b>												
<b>Gain (loss) on cash flow hedges:</b>												
Interest rate swap on wholesale funding	—	—	—	475	—		—	—	—	3,062	—	
Interest rate swap on variable rate loans	(601)	—	—	—	—		(2,167)	—	—	—	—	
<b>Gain (loss) on fair value hedges:</b>												
Interest rate swap on securities	—	140	—	—	—		—	1,359	—	—	—	

<b>Income and expense line items presented in the consolidated statements of income</b>	\$ 95,236	15,568	\$ 8,543	6,688	\$ 42,261	\$107,797	\$18,729	\$ 7,344	\$ 5,501	\$35,321
<b>The effects of cash flow and fair value hedging:</b>										
<b>Gain (loss) on cash flow hedges:</b>										
Interest rate swap on wholesale funding	—	—	(58)	(669)	—	—	—	—	475	—
Interest rate swap on variable rate loans	211	—	—	—	—	(601)	—	—	—	—
<b>Gain (loss) on fair value hedges:</b>										
Interest rate swap on securities	—	(566)	—	—	—	—	140	—	—	—

#### Cash flow hedges

##### **Interest rate swaps on wholesale funding**

As of December 31, 2022 December 31, 2023, we have two interest rate swaps on wholesale borrowings (the "Swaps") to limit its exposure to rising interest rates over a five year term on 3-month FHLB borrowings or brokered certificates, or a combination thereof at each maturity date. The first of the two agreements was entered in November 2019 with a \$50.0 million notional amount and pays a fixed interest rate of 1.53%. A second agreement was entered in April 2020 with a \$25.0 million notional amount and pays a fixed rate of 0.59%. The financial institution counterparty pays us interest on the three-month LIBOR rate, daily SOFR rate plus 26 basis points. We designated the Swaps as a cash flow hedge.

##### **Interest rate swap on variable rate loans**

In March 2021, we entered into a contract with a counterparty to manage We have an interest rate risk associated with its variable swap that effectively fixes our interest rate loans, on \$50 million at the daily SOFR rate plus 11 basis points of based loan assets at 0.806% plus the credit spread on the loans that reprices on weighted average basis. The instrument is specifically designed to hedge the risk of changes in its cash flows from interest receipts attributable to changes in a contractually specified interest rate, on an amount of our variable rate loan assets equal to \$50 million. The interest rate swap will effectively fix our interest rate on \$50 million of one month USD-LIBOR-BBA (or LIBOR less two days) based loan assets at 0.806% plus the credit spread on the loans that reprices on weighted average basis. We designated the swap as a cash flow hedge.

95 96

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#### [Table of Contents](#)

#### Fair value hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged asset or liability attributable to the hedged risk are recognized in current earnings. We utilize interest rate swaps designated as fair value hedges to mitigate the effect of changing interest rates on the fair values of fixed rate callable securities available-for-sale. The hedging strategy on securities converts the fixed interest rates to LIBOR-based SOFR-based variable interest rates. These derivatives are designated as partial term hedges of selected cash flows covering specified periods of time prior to the call dates of the

hedged securities. During 2019, we entered into eight swap transactions with a notional amount of \$37.2 million designated as fair value hedges. These derivatives are intended to protect against the effects of changing interest rates on the fair values of fixed rate securities. The fixed rates on the transactions have a weighted average of 1.696%.

#### Economic hedges

##### **Forward sale commitments**

We utilize forward sale commitments on residential mortgage loans to hedge interest rate risk and the associated effects on the fair value of interest rate lock commitments and loans originated for sale. The forward sale commitments are accounted for as derivatives. We typically use a combination of best efforts and mandatory delivery contracts. The contracts are loan sale agreements where we commit to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. Generally, we enter into contracts just prior to the loan closing with a customer.

##### **Customer loan derivatives**

We enter into customer loan derivatives to facilitate the risk management strategies for commercial banking customers. We mitigate this risk by entering into equal and offsetting loan swap agreements with highly rated third-party financial institutions. The loan swap agreements are free standing derivatives and are recorded at fair value in our consolidated balance sheet. We are party to master netting arrangements with our financial institutional counterparties; however, we do not offset assets and liabilities under these arrangements for financial statement presentation purposes.

The master netting arrangements provide for a single net settlement of all loan swap agreements, as well as collateral or cash funds, in the event of default on, or termination of, any one contract. Collateral is provided by cash or securities received or posted by the counterparty with net liability positions, respectively, in accordance with contract thresholds.

The below table describes the potential effect of master netting arrangements on the consolidated balance sheet and the financial collateral pledged for these arrangements:

(in thousands)	Gross Amounts Offset in the Consolidated Balance Sheet				Gross Amounts Offset in the Consolidated Balance Sheet			
	Derivative		Cash Collateral		Derivative		Cash Collateral	
	Liabilities	Derivative Assets	Pledged	Net Amount	Liabilities	Derivative Assets	Pledged	Net Amount
<b>As of December 31, 2022</b>								
<b>As of December 31, 2023</b>								
Customer	Loan							
Derivatives:								
MNA counterparty	\$ (20,287)	\$ 20,287	\$ —	\$ —	\$ (14,842)	\$ 14,842	\$ —	\$ —
RPA counterparty	—	—	—	—	(286)	286	—	—
Total	<u>\$ (20,287)</u>	<u>\$ 20,287</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (15,128)</u>	<u>\$ 15,128</u>	<u>\$ —</u>	<u>\$ —</u>

#### Non-hedging derivatives

##### **Interest rate lock commitments**

We enter into interest rate lock commitments ("IRLCs") for residential mortgage loans, which commit us to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs relate to the origination of residential mortgage loans that are held for sale and are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose us to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free standing derivatives, which are carried at fair value with changes recorded in non-interest income

9697

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[Table of Contents](#)

in our Consolidated Statements of Income. Changes in the fair value of IRLCs subsequent to inception are based on (i) changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and (ii) changes in the probability when the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

#### NOTE 11. OTHER COMMITMENTS, CONTINGENCIES, AND OFF-BALANCE SHEET ACTIVITIES

##### ***Customer Obligations***

We are a party to financial instruments in the normal course of business to meet financing needs of our customers. These financial instruments include commitments to extend credit, unused or unadvanced loan funds, and letters of credit. We use the same lending policies and procedures to make such commitments as we use for other lending products. Customer's creditworthiness is evaluated on a case-by-case basis.

Commitments to originate loans, including unused or unadvanced loan funds, are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require customer payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally become payable upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and a third party. The contractual amount of these letters of credit represents the maximum potential future payments guaranteed by us. Typically these letters of credit expire if unused; therefore the total amounts do not necessarily represent future cash requirements.

The following table summarizes the contractual amounts of commitments and contingent liabilities to customers as of **December 31, 2022**, **December 31, 2023** and **December 31, 2021** **December 31, 2022**:

(in thousands)	2022	2021	2023	2022
Commitments to originate new loans	\$ 51,371	\$ 115,563	\$ 55,163	\$ 51,371
Unused funds on commercial and other lines of credit	265,587	98,993	202,516	265,587
Unadvanced funds on home equity lines of credit	122,295	117,351	118,794	122,295
Unadvanced funds on construction and real estate loans	247,382	168,883	188,794	247,382
Commercial and standby letters of credit	4,370	3,061	4,217	4,370
Letters of credit securing municipal deposits	228,900	221,804	232,500	228,900
<b>Total</b>	<b>\$ 919,905</b>	<b>\$ 725,655</b>	<b>\$801,984</b>	<b>\$919,905</b>

##### ***Legal Claims***

Various legal claims arise from time to time in the normal course of business. As of **December 31, 2022** **December 31, 2023**, neither the Company nor its subsidiaries were involved in any pending legal proceedings believed by management to be material to our financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Company, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans, and other issues incident in the normal course of our business. However, neither the Company nor its subsidiaries are a party to any pending legal proceedings that it believes, either individually or in the aggregate, would have a material adverse effect on our financial condition or operations. Additionally, future, probable losses cannot be estimated as of **December 31, 2022** **December 31, 2023**.

97.98

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#### [Table of Contents](#)

## NOTE 12. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE

The actual and required capital ratios at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 were as follows:

(in thousands, except ratios)	December 31, 2022				December 31, 2023			
	Actual		Minimum Regulatory Capital Requirements		Actual		Minimum Regulatory Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Company (consolidated)</b>								
Total capital to risk-weighted assets	\$ 416,900	13.50 %	\$ 247,041	8.00 %	\$ 450,160	14.24 %	\$ 252,888	8.00 %
Common equity tier 1 capital to risk-weighted assets	326,513	10.57	138,960	4.50	357,574	11.31	142,249	4.50
Tier 1 capital to risk-weighted assets	347,133	11.24	185,281	6.00	378,194	11.96	189,666	6.00
Tier 1 capital to average assets (leverage ratio)	347,133	9.21	150,772	4.00	378,194	9.70	156,022	4.00
<b>Bank</b>								
Total capital to risk-weighted assets	\$ 410,053	13.29 %	\$ 246,812	8.00 %	\$ 441,278	13.97 %	\$ 252,642	8.00 %
Common equity tier 1 capital to risk-weighted assets	380,286	12.33	138,832	4.50	409,312	12.96	142,111	4.50
Tier 1 capital to risk-weighted assets	380,286	12.33	185,110	6.00	409,312	12.96	189,482	6.00
Tier 1 capital to average assets (leverage ratio)	380,286	10.10	150,655	4.00	409,312	10.50	155,908	4.00

(in thousands, except ratios)	December 31, 2021				December 31, 2022			
			Minimum Regulatory				Minimum Regulatory	
	Actual		Capital Requirements		Actual		Capital Requirements	
Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount
<b>Company (consolidated)</b>								
Total capital to risk-weighted assets	\$ 380,690	14.31 %	\$ 212,798	8.00 %	\$ 416,900	13.50 %	\$ 247,041	8.00 %
Common equity tier 1 capital to risk-weighted assets	295,635	11.12	119,699	4.50	326,513	10.57	138,960	4.50
Tier 1 capital to risk-weighted assets	316,255	11.90	159,598	6.00	347,133	11.24	185,281	6.00
Tier 1 capital to average assets (leverage ratio)	316,255	8.66	146,029	4.00	347,133	9.21	150,772	4.00
<b>Bank</b>								
Total capital to risk-weighted assets	\$ 375,435	14.13 %	\$ 220,425	8.00 %	\$ 410,053	13.29 %	\$ 246,812	8.00 %
Common equity tier 1 capital to risk-weighted assets	351,000	13.22	123,812	4.50	380,286	12.33	138,832	4.50
Tier 1 capital to risk-weighted assets	351,000	13.22	165,082	6.00	380,286	12.33	185,110	6.00
Tier 1 capital to average assets (leverage ratio)	351,000	9.62	151,082	4.00	380,286	10.10	150,655	4.00

In order to be classified as "well-capitalized" under the relevant regulatory framework, the Company must, on a consolidated basis, maintain a total risk-based capital ratio of 10.00% or greater and a Tier 1 risk-based capital ratio of 6.00% or greater, and the Bank must maintain a total risk-based capital ratio of 10.00% or greater, a Tier 1 risk-based capital ratio of 8.00% or greater, a common equity Tier 1 capital ratio of 6.50% or greater, and a leverage ratio of 5.00% or greater. At each date shown in the tables above, the Company and the Bank met the conditions to be classified as "well-capitalized" under the relevant regulatory framework.

98 99

## Table of Contents

#### Accumulated Other Comprehensive Income

Components of accumulated other comprehensive income at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 are as follows:

(in thousands)	December 31, 2022	December 31, 2021
<b>Accumulated other comprehensive income, before tax:</b>		
Net unrealized (loss) gain on AFS securities	\$ (71,832)	\$ 2,580
Net unrealized (loss) gain on hedging derivatives	(2,333)	1,130
Net unrealized loss on post-retirement plans	(1,691)	(718)
<b>Income taxes related to items of accumulated other comprehensive income:</b>		
Net unrealized loss (gain) on AFS securities	16,586	(595)
Net unrealized loss (gain) on hedging derivatives	539	(260)
Net unrealized loss on post-retirement plans	391	166
<b>Accumulated other comprehensive (loss) income</b>	<b>\$ (58,340)</b>	<b>\$ 2,303</b>

(in thousands)	December 31, 2023	December 31, 2022
<b>Accumulated other comprehensive loss, before tax:</b>		
Net unrealized loss on AFS securities	\$ (62,351)	\$ (71,832)
Net unrealized loss on hedging derivatives	(1,322)	(2,333)
Net unrealized loss on post-retirement plans	(1,540)	(1,691)
<b>Income taxes related to items of accumulated other comprehensive loss:</b>		
Net unrealized loss on AFS securities	14,702	16,586
Net unrealized loss on hedging derivatives	312	539
Net unrealized loss on post-retirement plans	337	391
<b>Accumulated other comprehensive loss</b>	<b>\$ (49,862)</b>	<b>\$ (58,340)</b>

The following table presents the components of other comprehensive income in 2023, 2022 2021 and 2020: 2021:

(in thousands)	Before Tax	Tax Effect	Net of Tax
<b>Year Ended December 31, 2022</b>			
Net unrealized loss on AFS securities:			
Net unrealized loss arising during the period	\$ (74,359)	\$ 17,169	\$ (57,190)
Less: reclassification adjustment for gains realized in net income	53	(12)	41
Net unrealized loss on AFS securities	(74,412)	17,181	(57,231)
Net unrealized loss on hedging derivatives:			
Net unrealized loss arising during the period	(3,463)	799	(2,664)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized gain on hedging derivatives	(3,463)	799	(2,664)
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	(973)	225	(748)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	(973)	225	(748)
<b>Other comprehensive loss</b>	<b>\$ (78,848)</b>	<b>\$ 18,205</b>	<b>\$ (60,643)</b>
<b>Year Ended December 31, 2021</b>			
Net unrealized loss on AFS securities:			
Net unrealized loss arising during the period	\$ (7,619)	\$ 1,779	\$ (5,840)
Less: reclassification adjustment for gains realized in net income	2,870	(672)	2,198
Net unrealized loss on AFS securities	(10,489)	2,451	(8,038)

Net unrealized gain on hedging derivatives:			
Net unrealized gain arising during the period	3,562	(827)	2,735
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized gain on cash flow hedging derivatives	3,562	(827)	2,735
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	1,132	(266)	866
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	1,132	(266)	866
<b>Other comprehensive (loss) income</b>	<b>\$ (5,795)</b>	<b>\$ 1,358</b>	<b>\$ (4,437)</b>

99

---

[Table of Contents](#)

(in thousands)	2020		
	Before Tax	Tax Effect	Net of Tax
Net unrealized gain on AFS securities:			
Net unrealized gain arising during the period	\$ 11,264	\$ (2,636)	\$ 8,628
Less: reclassification adjustment for gains (losses) realized in net income	5,445	(1,291)	4,154
Net unrealized gain on AFS securities	5,819	(1,345)	4,474
Net unrealized loss on hedging derivatives:			
Net unrealized loss arising during the period	(6,503)	1,303	(5,200)
Less: reclassification adjustment for gains (losses) realized in net income	(4,852)	917	(3,935)
Net unrealized loss on hedging derivatives	(1,651)	386	(1,265)
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	(338)	77	(261)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	(338)	77	(261)
<b>Other comprehensive income</b>	<b>\$ 3,830</b>	<b>\$ (882)</b>	<b>\$ 2,948</b>

(in thousands)	Before Tax	Tax Effect	Net of Tax
<b>Year Ended December 31, 2023</b>			
Net unrealized gain on AFS securities:			
Net unrealized gain arising during the period	\$ 9,515	\$ (1,892)	\$ 7,623
Less: reclassification adjustment for gains realized in net income	34	(8)	26
Net unrealized gain on AFS securities	9,481	(1,884)	7,597
Net unrealized gain on hedging derivatives:			
Net unrealized gain arising during the period	1,011	(227)	784
Less: reclassification adjustment for gains realized in net income	—	—	—
Net unrealized gain on hedging derivatives	1,011	(227)	784

Net unrealized gain on post-retirement plans:			
Net unrealized gain arising during the period	135	(38)	97
Less: reclassification adjustment for gains realized in net income	—	—	—
Net unrealized gain on post-retirement plans	<u>135</u>	<u>(38)</u>	<u>97</u>
<b>Other comprehensive income</b>	<u><u>\$ 10,627</u></u>	<u><u>\$ (2,149)</u></u>	<u><u>\$ 8,478</u></u>
<b>Year Ended December 31, 2022</b>			
Net unrealized loss on AFS securities:			
Net unrealized loss arising during the period	\$ (74,359)	\$ 17,169	\$ (57,190)
Less: reclassification adjustment for gains realized in net income	53	(12)	41
Net unrealized loss on AFS securities	<u>(74,412)</u>	<u>17,181</u>	<u>(57,231)</u>
Net unrealized loss on hedging derivatives:			
Net unrealized loss arising during the period	(3,463)	799	(2,664)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized gain on hedging derivatives	<u>(3,463)</u>	<u>799</u>	<u>(2,664)</u>
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	(973)	225	(748)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	<u>(973)</u>	<u>225</u>	<u>(748)</u>
<b>Other comprehensive loss</b>	<u><u>\$ (78,848)</u></u>	<u><u>\$ 18,205</u></u>	<u><u>\$ (60,643)</u></u>

100

---

[Table of Contents](#)

(in thousands)	2021		
	Before Tax	Tax Effect	Net of Tax
Net unrealized loss on AFS securities:			
Net unrealized loss arising during the period	\$ (7,619)	\$ 1,779	\$ (5,840)
Less: reclassification adjustment for gains realized in net income	2,870	(672)	2,198
Net unrealized loss on AFS securities	<u>(10,489)</u>	<u>2,451</u>	<u>(8,038)</u>
Net unrealized gain on hedging derivatives:			
Net unrealized gain arising during the period	3,562	(827)	2,735
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized gain on cash flow hedging derivatives	<u>3,562</u>	<u>(827)</u>	<u>2,735</u>
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	1,132	(266)	866
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	<u>1,132</u>	<u>(266)</u>	<u>866</u>
<b>Other comprehensive loss</b>	<u><u>\$ (5,795)</u></u>	<u><u>\$ 1,358</u></u>	<u><u>\$ (4,437)</u></u>

The following table presents the changes in each component of accumulated other comprehensive income/(loss) in 2023, 2022 2021 and 2020: 2021:

(in thousands)	2022				2021			
	Net unrealized gain (loss) on AFS Securities	Net gain (loss) on effective cash derivatives	Net unrealized loss on pension plans	Total	Net unrealized gain (loss) on AFS Securities	Net gain (loss) on effective cash derivatives	Net unrealized loss on pension plans	Total
	\$ (55,246)	\$ (1,794)	\$ (1,300)	\$ (58,340)	\$ (55,246)	\$ (1,794)	\$ (1,300)	\$ (58,340)
<b>Year Ended December 31, 2023</b>								
Balance at beginning of period								
Other comprehensive gain before reclassifications					7,623	784	97	8,504
Less: amounts reclassified from accumulated other comprehensive income					26	—	—	26
Total other comprehensive income					7,597	784	97	8,478
Balance at end of period					<u>\$ (47,649)</u>	<u>\$ (1,010)</u>	<u>\$ (1,203)</u>	<u>\$ (49,862)</u>
<b>Year Ended December 31, 2022</b>								
Balance at beginning of period	\$ 1,985	\$ 870	\$ (552)	\$ 2,303	\$ 1,985	\$ 870	\$ (552)	\$ 2,303
Other comprehensive loss before reclassifications	(57,190)	(2,664)	(748)	(60,602)	(57,190)	(2,664)	(748)	(60,602)
Less: amounts reclassified from accumulated other comprehensive income	41	—	—	41	41	—	—	41
Total other comprehensive loss	(57,231)	(2,664)	(748)	(60,643)	(57,231)	(2,664)	(748)	(60,643)
Balance at end of period	<u>\$ (55,246)</u>	<u>\$ (1,794)</u>	<u>\$ (1,300)</u>	<u>\$ (58,340)</u>	<u>\$ (55,246)</u>	<u>\$ (1,794)</u>	<u>\$ (1,300)</u>	<u>\$ (58,340)</u>
<b>Year Ended December 31, 2021</b>								
Balance at beginning of period					\$ 10,023	\$ (1,865)	\$ (1,418)	\$ 6,740
Other comprehensive loss before reclassifications					(5,840)	2,735	866	(2,239)
Less: amounts reclassified from accumulated other comprehensive income					2,198	—	—	2,198
Total other comprehensive loss					(8,038)	2,735	866	(4,437)
Balance at end of period					<u>\$ 1,985</u>	<u>\$ 870</u>	<u>\$ (552)</u>	<u>\$ 2,303</u>
<b>2021</b>								
	Net unrealized (loss) gain on AFS	Net loss on effective cash flow hedging	Net unrealized loss on pension					
	\$ (55,246)	\$ (1,794)	\$ (1,300)	\$ (58,340)	\$ (55,246)	\$ (1,794)	\$ (1,300)	\$ (58,340)

(in thousands)	Securities	derivatives	plans	Total
Balance at beginning of period	\$ 10,023	\$ (1,865)	\$ (1,418)	\$ 6,740
Other comprehensive (loss) gain before reclassifications	(5,840)	2,735	866	(2,239)
Less: amounts reclassified from accumulated other comprehensive income	2,198	—	—	2,198
Total other comprehensive (loss) income	(8,038)	2,735	866	(4,437)
Balance at end of period	\$ 1,985	\$ 870	\$ (552)	\$ 2,303

(in thousands)	2020			
	Net unrealized (loss) gain on AFS	Net loss on effective cash flow hedging	Net unrealized loss on pension	
	Securities	derivatives	plans	Total
Balance at beginning of period	\$ 5,549	\$ (600)	\$ (1,157)	\$ 3,792
Other comprehensive (loss) gain before reclassifications	8,628	(5,200)	(261)	3,167
Less: amounts reclassified from accumulated other comprehensive income	4,154	(3,935)	—	219
Total other comprehensive income (loss)	4,474	(1,265)	(261)	2,948
Balance at end of period	\$ 10,023	\$ (1,865)	\$ (1,418)	\$ 6,740

[Table of Contents](#)

The following tables presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) in 2023, 2022 [2021](#) and [2020](#): [2021](#):

(in thousands)	Affected Line Item where Net Income is Presented			
	2022	2021	2020	Net Income is Presented
Net realized gains on AFS securities:				
Before tax	\$ 53	\$ 2,870	\$ 5,445	Non-interest income
Tax effect	(12)	(672)	(1,275)	Tax expense
Total reclassifications for the period	\$ 41	\$ 2,198	\$ 4,170	
Net realized loss on hedging derivatives:				
Before tax	\$ —	\$ —	\$ (4,852)	Non-interest income
Tax effect	—	—	917	Tax expense
Total reclassifications for the period	\$ —	\$ —	\$ (3,935)	

(in thousands)	Affected Line Item where Net Income is Presented				Affected Line Item where Net Income is Presented			
	2022	2021	2020	Net Income is Presented	2023	2022	2021	Net Income is Presented
Realized loss on post-retirement plans:								
Net realized gains on AFS securities:								
Before tax	\$ —	\$ —	\$ —	Non-interest expense	\$ 34	\$ 53	\$ 2,870	Non-interest income
Tax effect	—	—	—	Tax expense	(8)	(12)	(672)	Tax expense

Total reclassifications for the period	\$ —	\$ —	\$ —	\$ 26	\$ 41	\$ 2,198
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#### Earnings per Share

Earnings per share have been computed based on the following:

(in thousands, except per share and share data)	2022	2021	2020	2023	2022	2021
<b>Net income</b>	\$ 43,557	\$ 39,299	\$ 33,244	\$ 44,852	\$ 43,557	\$ 39,299
Average number of basic common shares outstanding	15,040,162	14,968,973	15,245,728	15,142,188	15,040,162	14,968,973
Plus: dilutive effect of stock options and awards outstanding	71,799	76,189	25,819	53,048	71,799	76,189
Average number of diluted common shares outstanding <sup>(1)</sup>	<u>15,111,961</u>	<u>15,045,162</u>	<u>15,271,547</u>	<u>15,195,236</u>	<u>15,111,961</u>	<u>15,045,162</u>
<b>Earnings per share:</b>						
Basic	\$ 2.90	\$ 2.63	\$ 2.18	\$ 2.96	\$ 2.90	\$ 2.63
Diluted	\$ 2.88	\$ 2.61	\$ 2.18	\$ 2.95	\$ 2.88	\$ 2.61

(1) Average diluted shares outstanding are computed using the treasury stock method.

102

#### [Table of Contents](#)

#### NOTE 13. STOCK-BASED COMPENSATION PLANS

We have several stock-based compensation plans that allow for grants of restricted stock, restricted shares, performance share units, performance shares and restricted stock units to our employees and non-employee directors. Our stock-based compensation plans are administered by the Compensation Committee of the Board of Directors. For the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, all common stock issuances in connection with stock-based compensation arrangements were issued from unissued shares. As of December 31, 2022 December 31, 2023, total shares authorized under the stock-based compensation 2019 plan for employees and directors were 500,000 shares, of which 121,351 217,435 shares were available for future grants.

Compensation expense recognized in connection with the stock-based compensation plans are presented in the following table for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021:

(in thousands)	2022	2021	2020	2023	2022	2021
Stock options	\$ —	\$ —	\$ 12	\$ —	\$ —	\$ —
Restricted stock awards	578	357	275	868	578	357
Performance stock units	181	317	225	857	181	317

Restricted stock units	1,098	1,391	960	800	1,098	1,391
Total compensation expense	\$ 1,857	\$ 2,065	\$ 1,472	\$ 2,525	\$ 1,857	\$ 2,065

Tax benefits recognized from stock-based compensation plans for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021 are, as follows:

(in thousands)	2022	2021	2020	2023	2022	2021
Stock options(1)	\$ 22	\$ 77	\$ 9	\$ 17	\$ 22	\$ 77
Restricted stock awards	136	84	65	201	136	84
Performance stock units	43	79	49	204	43	79
Restricted stock units	274	344	190	193	274	344
Total tax benefit	\$ 475	\$ 584	\$ 313	\$ 615	\$ 475	\$ 584

(1) We do not receive a tax benefit on this plan until disqualifying dispositions are made.

#### Stock Options

A summary of stock options as of December 31, 2022 December 31, 2023 and 2021, 2022, and changes during the year then ended is presented below:

Stock Options	Number of	Weighted	Aggregate	Number of	Weighted	Aggregate
	Stock Options	Average	Intrinsic Value	Stock Options	Average	Intrinsic Value
	Outstanding	Exercise Price	(in thousands)	Outstanding	Exercise Price	(in thousands)
Outstanding at January 1, 2022	57,964	\$ 20.89				
Outstanding at January 1, 2023				47,327	\$ 21.47	
Granted	—	—		—	—	
Exercised	(10,637)	18.29		(8,166)	20.64	
Forfeited	—	—		—	—	
Expired	—	—		(3,323)	16.99	
Outstanding at December 31, 2022	47,327	\$ 21.47	\$ 500			
Outstanding at December 31, 2023				35,838	\$ 22.08	\$ 261
Ending vested and expected to vest December 31, 2022	47,327	\$ 21.47	\$ 500			
Exercisable at December 31, 2022	47,327	21.47	500			
Ending vested and expected to vest December 31, 2023				35,838	\$ 22.08	\$ 261
Exercisable at December 31, 2023				35,838	22.08	261

	Number of	Weighted	Aggregate	Number of	Weighted	Aggregate
	Stock Options	Average	Intrinsic Value	Stock Options	Average	Intrinsic Value
Stock Options	Outstanding	Exercise Price	(in thousands)	Outstanding	Exercise Price	(in thousands)
Outstanding at January 1, 2021	94,566	\$ 20.29				
Outstanding at January 1, 2022				57,964	\$ 20.89	
Granted	—	—		—	—	
Exercised	(36,441)	19.38		(10,637)	18.29	
Forfeited	—	—		—	—	
Expired	(161)	13.27		—	—	
Outstanding at December 31, 2021	57,964	\$ 20.89	\$ 466			
Outstanding at December 31, 2022				47,327	\$ 21.47	\$ 500
Ending vested and expected to vest December 31, 2021	57,964	\$ 20.89	\$ 466			
Exercisable at December 31, 2021	57,962	20.89	466			
Ending vested and expected to vest December 31, 2022				47,327	\$ 21.47	\$ 500
Exercisable at December 31, 2022				47,327	21.47	500

All outstanding options were fully vested with no unrecognized compensation cost as of December 31, 2021. The intrinsic value of the options exercised for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, was approximately \$74 thousand, \$94 thousand \$331 thousand and \$39 thousand, respectively. The weighted average remaining contractual term of outstanding options is approximately 2.4 1.6 years.

#### Restricted Stock Awards

Restricted stock awards ("RSAs") are granted to certain directors and executive officers and vest immediately. A summary of RSAs as of December 31, 2022 December 31, 2023 and 2021, and changes during the year then ended is presented below:

Restricted Stock Awards	Number of		Number of	
	Restricted Stock	Weighted Average	Restricted Stock	Weighted Average
			Awards	Grant Date Fair
Outstanding at January 1, 2023			Outstanding	Value
Awarded			24,824	\$ 28.49
Vested			39,585	29.16
Forfeited			(23,235)	27.36
Outstanding at December 31, 2023			—	—
			41,174	\$ 29.78

Restricted Stock Awards	Number of		Number of	
	Restricted Stock	Weighted Average	Restricted Stock	Weighted Average
			Awards	Grant Date Fair
Outstanding at January 1, 2022			Outstanding	Value
Awarded	—	\$ —	—	\$ —
Vested	39,267	29.21	39,267	29.21
Forfeited	(14,443)	30.46	(14,443)	30.46
Outstanding at December 31, 2022	24,824	\$ 28.49	24,824	\$ 28.49

  

Number of	
Restricted Stock	Weighted Average

Restricted Stock Awards	Awards		Grant Date Fair	
	Outstanding		Value	
Outstanding at January 1, 2021	—	\$	—	
Awarded	11,418		31.29	
Vested	(11,418)		31.29	
Forfeited	—		—	
Outstanding at December 31, 2021	—	\$	—	

Unrecognized expense for non-vested RSAs totaled ~~\$138~~ \$370 thousand as of December 31, 2022 December 31, 2023, which is expected to be recognized over the weighted average remaining contractual maturity term of 2.3 3.0 years.

#### Performance Stock Units

We have a long-term incentive plan where performance unit awards ("PSUs") are granted to certain executive officers providing the opportunity to earn shares of common stock of the Company based on our performance compared to peers. Participants in the plan were collectively granted PSUs ranging from zero to 43,800 43,247 in 2022 2023 and from zero to 49,625 43,800 in 2021 2022. The PSUs granted will vest only if the performance measures are achieved over a three year performance period. Failure to achieve the performance measures will result in all or a portion of shares being forfeited. On the grant dates in 2022 2023 and 2021, 2022, PSUs had a weighted average fair value per share of \$28.49 \$30.64 and \$23.18, \$28.49, respectively. Expense is recognized over the performance period and is adjusted for changes in probability of the Company achieving profitability metrics.

104

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#### [Table of Contents](#)

The following table summarizes PSUs at target as of December 31, 2022 December 31, 2023 and 2021: 2022:

Performance Stock Units	Number of Performance Stock		Weighted Average		Number of Performance Stock		Weighted Average	
	Units Outstanding	Grant Date Fair	Value	Units Outstanding	Grant Date Fair	Value	Units Outstanding	Grant Date Fair
Nonvested at January 1, 2022	70,465	\$	23.88					
Nonvested at January 1, 2023				78,435	\$	25.70		
Awarded	29,200		28.49		28,831			30.64
Vested and exercised	—		—		(15,601)			25.29
Forfeited	(21,230)		23.35		(6,750)			25.30
Nonvested at December 31, 2022	78,435	\$	25.70					
Nonvested at December 31, 2023				84,915	\$	27.53		

Performance Stock Units	Number of Performance Stock		Weighted Average		Number of Performance Stock		Weighted Average	
	Units Outstanding	Grant Date Fair	Value	Units Outstanding	Grant Date Fair	Value	Units Outstanding	Grant Date Fair
Nonvested at January 1, 2021	56,328	\$	24.98					
Nonvested at January 1, 2022				70,465	\$	23.88		
Awarded	33,083		23.18		29,200			28.49
Vested and exercised	(7,694)		26.79		—			—
Forfeited	(11,252)		25.33		(21,230)			23.35

Nonvested at December 31, 2021	70,465	\$ 23.88
Nonvested at December 31, 2022		78,435 \$ 25.70

Unrecognized expense for non-vested PSUs totaled \$745 thousand \$1.3 million as of December 31, 2022 December 31, 2023, which is expected to be recognized over the weighted average remaining contractual maturity term of 2.0 2.8 years. PSUs do not carry an exercise price and therefore have no intrinsic value as of December 31, 2022 December 31, 2023.

#### **Restricted Stock Units**

During 2022 2023 and 2021, 2022, restricted stock units ("RSUs") were granted to certain executive officers and senior vice presidents. Awards to executives vest annually over 3 years while awards to senior vice presidents cliff vest at the end of three years. The RSUs granted were valued at \$29.36 for 2023 and between \$28.49 and \$29.34 for 2022 and between \$22.51 and \$28.93 for 2021 the fair value at the date of grant and are expensed over three years.

The following table summarizes RSUs activity in 2022 2023 and 2021: 2022:

	Number of	Weighted Average	Number of	Weighted Average
	Restricted Stock	Grant Date Fair	Restricted Stock	Grant Date Fair
	Units Outstanding	Value	Units Outstanding	Value
Outstanding at January 1, 2022	133,617	\$ 23.48		
Outstanding at January 1, 2023			115,816	\$ 25.25
Granted	36,468	28.51	36,354	26.12
Vested and exercised	(43,059)	22.88	(43,341)	21.77
Forfeited	(11,210)	23.46	(6,134)	25.84
Outstanding at December 31, 2022	115,816	\$ 25.25		
Outstanding at December 31, 2023			102,695	\$ 27.07

	Number of	Weighted Average	Number of	Weighted Average
	Restricted Stock	Grant Date Fair	Restricted Stock	Grant Date Fair
	Units Outstanding	Value	Units Outstanding	Value
Outstanding at January 1, 2021	131,398	\$ 23.57		
Outstanding at January 1, 2022			133,617	\$ 23.48
Granted	59,401	25.51	36,468	28.51
Vested and exercised	(38,202)	27.33	(43,059)	22.88
Forfeited	(18,980)	22.72	(11,210)	23.46
Outstanding at December 31, 2021	133,617	\$ 23.48		
Outstanding at December 31, 2022			115,816	\$ 25.25

RSUs include cash-based restricted stock units ("CRSUs"), total CRSUs vested and exercised during 2023 and 2022 were 29,043 and 2021 were 24,232 and 20,568 shares, respectively. Unrecognized expense for non-vested RSUs totaled \$1.8 million \$1.5 million as of December 31, 2022 December 31, 2023, which is expected to be recognized over the weighted average remaining contractual maturity term of 1.9 3.0 years.

We maintain an employee stock purchase plan ("ESPP") under which employees, through payroll deductions, are able to purchase shares of Company's common stock. The purchase price is 92% of the lower of the market price on the first or last day of the offering period. The maximum number of shares issuable during any offering period is 200,000 shares; however, as of December 31, 2022 December 31, 2023, December 31, 2021 December 31, 2022 and December 31, 2020 December 31, 2021, there were 177,415, 179,079 167,502 and 186,983 167,502 shares available for issuance under the ESPP, respectively. Participants may not purchase more than 400 shares during any offering period and, in any event, no more than \$25 thousand worth of common stock in any calendar year. The ESPP has been determined to be non-compensatory in nature. As a result, we expect that expenses related to the ESPP will not be material. During the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, there were 22,585, 20,921 19,481 and 13,017 19,481 shares of common stock issued under the ESPP, respectively.

[Table of Contents](#)

**NOTE 14. FAIR VALUE MEASUREMENTS**

**Recurring Fair Value Measurements**

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

(in thousands)	December 31, 2022				December 31, 2023			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Available for sale securities:</b>								
Obligations of US Government-sponsored enterprises								
Mortgage-backed securities:								
US Government-sponsored enterprises	\$ —	\$ 215,027	\$ —	\$ 215,027	—	193,282	—	193,282
US Government agency	—	82,266	—	82,266	—	74,213	—	74,213
Private label	—	60,154	—	60,154	—	59,051	—	59,051
Obligations of states and political subdivisions thereof	—	107,737	—	107,737	—	110,168	—	110,168
Corporate bonds	—	94,332	—	94,332	—	95,868	—	95,868
Loans held for sale	—	—	—	—	—	2,189	—	2,189
Derivative assets	—	30,039	—	30,039	—	21,775	63	21,838
Derivative liabilities	—	(25,228)	—	(25,228)	—	(18,587)	(20)	(18,607)

(in thousands)	December 31, 2021				December 31, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Available for sale securities:</b>								
Obligations of US Government-sponsored enterprises								
Mortgage-backed securities:								
	\$ —	\$ 2,660	\$ —	\$ 2,660	—	—	—	—

US Government-sponsored enterprises	\$ —	\$ 236,117	\$ —	\$ 236,117	—	215,027	—	215,027
US Government agency	—	79,637	—	79,637	—	79,606	—	79,606
Private label	—	64,695	—	64,695	—	60,154	—	60,154
Obligations of states and political subdivisions thereof	—	141,776	—	141,776	—	107,737	—	107,737
Corporate bonds	—	96,051	—	96,051	—	94,332	—	94,332
Loans held for sale	—	5,523	—	5,523	—	—	—	—
Derivative assets	—	13,850	298	14,148	—	30,039	—	30,039
Derivative liabilities	—	(15,257)	—	(15,257)	—	(25,228)	—	(25,228)

**Securities Available for Sale:** All securities and major categories of securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, we obtain fair value measurements from independent pricing providers. The fair value measurements used by the pricing providers consider observable data that may include dealer quotes, market maker quotes and live trading systems. If quoted prices are not readily available, fair values are determined using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as market pricing spreads, credit information, callable features, cash flows, the US Treasury yield curve, trade execution data, market consensus prepayment speeds, default rates, and the securities' terms and conditions, among other things.

**Loans Held for Sale:** The valuation of our loans held for sale are determined on an individual basis using quoted secondary market prices and are classified as Level 2 measurements.

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[Table of Contents](#)

**Derivative Assets and Liabilities**

**Cash Flow Hedges.** The valuation of our cash flow hedges are obtained from a third party. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The inputs used to value the cash flow hedges are all classified as Level 2 measurements.

**Interest Rate Lock Commitments.** We enter into IRLCs for residential mortgage loans, which commit us to lend funds to potential borrowers at a specific interest rate and within a specified period of time. The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. However, this value is adjusted by a factor which considers the likelihood of a loan in a lock position will ultimately close. The closing ratio is derived from internal data and is adjusted using significant management judgment. As such, IRLCs are classified as Level 3 measurements.

**Forward Sale Commitments.** We utilize forward sale commitments as economic hedges against potential changes in the values of the IRLCs and loans originated for sale. The fair values of mandatory delivery loan sale commitments are determined similarly to the IRLCs using quoted prices in the ~~market place~~ marketplace that are observable. However, closing ratios included in the calculation are internally generated and are based on management's judgment and prior experience, which are not considered observable factors. As such, mandatory delivery forward commitments are classified as Level 3 measurements.

**Customer Loan Derivatives.** The valuation of our customer loan derivatives is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. We incorporate credit valuation adjustments to appropriately reflect our nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of the derivative contracts for the effect of nonperformance risk, we have considered the impact of master netting arrangements and any applicable credit enhancements, such as collateral postings.

Although we have determined that the majority of the inputs used to value customer loan derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and counterparties. However, as of **December 31, 2022** **December 31, 2023**, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we determined that the derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below presents the changes in Level 3 assets and liabilities that were measured at fair value on a recurring basis in **2022** **2023** and **2021**, **2022**.

(in thousands)	Assets (Liabilities)		Assets (Liabilities)	
	Interest Rate Lock Commitments	Forward Commitments	Interest Rate Lock Commitments	Forward Commitments
<b>Year Ended December 31, 2023</b>				
Balance at beginning of period			\$ —	\$ —
Realized gain recognized in non-interest income			63	—
<b>Balance at end of period</b>			<b>\$ 63</b>	<b>\$ —</b>
<b>Year Ended December 31, 2022</b>				
Balance at beginning of period	\$ 283	\$ 15	\$ 283	\$ 15
Realized loss recognized in non-interest income	(283)	(15)	(283)	(7)
<b>Balance at end of period</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8</b>
<b>Year Ended December 31, 2021</b>				
Balance at beginning of period	\$ 22	\$ (95)		
Realized gain recognized in non-interest income	261	110		
<b>Balance at end of period</b>	<b>\$ 283</b>	<b>\$ 15</b>		

108

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[Table of Contents](#)

Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities is as follows:

(in thousands, except ratios)	Fair Value			
	December 31, 2023	Valuation Techniques	Unobservable Inputs	Unobservable Input Value
Assets				
(Liabilities)				
Interest Rate Lock	\$ 63	Pull-through Rate Analysis	Closing Ratio	95 %
Commitment		Pricing Model	Origination Costs, per loan	\$ 1.7
			Discount Cash Flows	1.0 %
			Mortgage Servicing Asset	

		Total				\$ 63			
		Fair Value		Significant		Fair Value		Significant	
		December 31,	Valuation	Unobservable	Unobservable	December 31,	Valuation	Unobservable	Unobservable
(in thousands, except ratios)		2021	Techniques	Inputs	Input Value	2022	Techniques	Inputs	Input Value
Assets (Liabilities)									
Interest Rate Lock Commitment	\$ 283	Pull-through Rate Analysis	Closing Ratio	85 %	\$ 283	Pull-through Rate Analysis	Closing Ratio	85 %	
			Origination						
			Pricing Model	Costs, per loan	\$ 1.7		Pricing Model	Origination Costs, per loan	\$ 1.7
				Mortgage					
			Discount Cash Flows	Servicing Asset	1.0 %		Discount Cash Flows	Mortgage Servicing Asset	1.0 %
Forward Commitments	15	Quoted prices for similar loans in active markets	Freddie Mac pricing system	\$99.8 to \$103.2		15	Quoted prices for similar loans in active markets	Freddie Mac pricing system	\$99.8 to \$103.2
<b>Total</b>	<b>\$ 298</b>					<b>\$ 298</b>			

There were no level 3 assets and liabilities that were measured at fair value on a recurring basis in 2022, 2023 and 2021, 2022.

#### Non-Recurring Fair Value Measurements

We are required, on a non-recurring basis, to adjust the carrying value or provide valuation allowances for certain assets using fair value measurements in accordance with U.S. GAAP. The following is a summary of applicable non-recurring fair value measurements.

		Fair Value Measurement Date as of								Fair Value Measurement Date as of						
		Fair Value Measurement Date as of December				Fair Value Measurement Date as of				Fair Value Measurement Date as of						
		December 31, 2022		December 31, 2021		December 31, 2022		31, 2022		Dec 31, 2023		Dec 31, 2022		December 31, 2023		
		Level 3 Inputs		Level 3 Inputs		Total		Level 3 Inputs		Level 3 Inputs		Level 3 Inputs		Total	Level 3 Inputs	
(in thousands)																
<b>Assets</b>																
Individually evaluated loans	\$ 16,477	\$ 17,932	\$ (1,455)	December 2022	\$ 3,500	\$ 16,477	\$ (12,977)	December 2023								
Capitalized servicing rights	6,845	5,263	1,582	December 2022	6,764	6,845	(81)	December 2023								
Premises held for sale	252	226	26	December 2022	1,154	252	902	December 2023								
<b>Total</b>	<b>\$ 23,574</b>	<b>\$ 23,421</b>	<b>\$ 153</b>		<b>\$ 11,418</b>	<b>\$ 23,574</b>	<b>\$ (12,156)</b>									

Quantitative information about the significant unobservable inputs within Level 3 non-recurring assets as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 is as follows:

(in thousands, except ratios)	Fair Value			Range (Weighted Average)	Fair Value			
	December		Unobservable Inputs		December		Unobservable Inputs	
	31, 2022	Valuation Techniques			31, 2023	Valuation Techniques		
<b>Assets</b>								
Individually evaluated loans	\$ 13,587	Fair value of collateral-appraised value	Loss severity	1% to 40%	\$ 2,437	Fair value of collateral-appraised value	Loss severity	
			Appraised value	\$80 to \$3,859			Appraised value	
Individually evaluated loans	2,890	Discount cash flow	Discount rate	3.63% to 6.38%	1,063	Discount cash flow	Discount rate	
			Cash flows	\$100 to \$539			Cash flows	
Capitalized servicing rights	6,845	Discounted cash flow	Constant prepayment rate (CPR)	7.29%	6,764	Discounted cash flow	Constant prepayment rate	
			Discount rate	9.54%			Discount rate	
Premises held for sale	252	Fair value of asset less selling costs	Appraised value	\$267	1,154	Fair value of asset less selling costs	Appraised value	
			Selling Costs	6%			Selling Costs	
<b>Total</b>	<b>\$ 23,574</b>				<b>\$ 11,418</b>			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

(in thousands, except ratios)	Fair Value			Range (Weighted Average)	Fair Value			
	December		Unobservable Inputs		December		Unobservable Inputs	
	31, 2021	Valuation Techniques			31, 2022	Valuation Techniques		
<b>Assets</b>								
Individually evaluated loans	\$ 12,127	Fair value of collateral-appraised value	Loss severity	1% to 25%	\$ 13,587	Fair value of collateral-appraised value	Loss severity	
			Appraised value	\$71 to \$1,792			Appraised value	
Individually evaluated loans	5,805	Discount cash flow	Discount rate	2.88% to 9.50%	2,890	Discount cash flow	Discount rate	
			Cash flows	\$6 to \$931			Cash flows	
Capitalized servicing rights	5,263	Discounted cash flow	Constant prepayment rate (CPR)	12.47%	6,845	Discounted cash flow	Constant prepayment rate	
			Discount rate	9.53%			Discount rate	
Premises held for sale	226	Fair value of asset less selling costs	Appraised value	\$240	252	Fair value of asset less selling costs	Appraised value	
			Selling Costs	6%			Selling Costs	
<b>Total</b>	<b>\$ 23,421</b>				<b>\$ 23,574</b>			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

There were no Level 1 or Level 2 non-recurring fair value measurements for the periods ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

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[Table of Contents](#)

**Individually evaluated loans.** Loans are generally not recorded at fair value on a recurring basis. Periodically, we record non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, non-recurring fair value measurement adjustments relating to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral supporting commercial loans are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

**Capitalized loan servicing rights.** A loan servicing right asset represents the amount by which the present value of the estimated future net cash flows to be received from servicing loans exceed adequate compensation for performing the servicing. The fair value of loan servicing rights is estimated using a present value cash flow model. The most important assumptions used in the valuation model are the anticipated rate of the loan prepayments and discount rates. Adjustments are only recorded when the discounted cash flows derived from the valuation model are less than the carrying value of the asset. Although some assumptions in determining fair value are based on standards used by market participants, some are based on unobservable inputs and therefore are classified in Level 3 of the valuation hierarchy.

**Other real estate owned or OREO.** OREO results from the foreclosure process on residential or commercial loans issued by the Bank. Upon assuming the real estate, we record the property at the fair value of the asset less the estimated sales costs. Thereafter, OREO properties are recorded at the lower of cost or fair value less the estimated sales costs. OREO fair values are primarily determined based on Level 3 data including sales comparables and appraisals.

**Premises held for sale.** Assets held for sale, identified as part of our strategic review and branch optimization exercise, were transferred from premises and equipment at the lower of amortized cost or fair value less the estimated sales costs. Assets held for sale fair values are primarily determined based on Level 3 data including sales comparables and appraisals.

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[Table of Contents](#)

#### Summary of Estimated Fair Values of Financial Instruments

The estimated fair values, and related carrying amounts, of our financial instruments are included in the table below. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

December 31, 2022		December 31, 2023	
Carrying	Fair	Carrying	Fair

(in thousands)	Amount	Value	Level 1	Level 2	Level 3	Amount	Value	Level 1	Level 2	Level 3
<b>Financial Assets</b>										
Cash and cash equivalents	\$ 92,295	\$ 92,295	\$92,295	\$ —	\$ —	\$ 94,842	\$ 94,842	\$94,842	\$ —	\$ —
Securities available for sale	559,516	559,516	—	559,516	—	534,574	534,574	—	534,574	—
FHLB stock	14,893	14,893	—	14,893	—	14,834	14,834	—	14,834	—
Loans held for sale	—	—	—	—	—	2,189	2,189	—	2,189	—
Net loans	2,902,690	2,774,863	—	—	2,774,863	2,999,049	2,832,173	—	—	2,832,173
Accrued interest receivable	4,257	4,257	—	4,257	—	4,921	4,921	—	4,921	—
Cash surrender value of bank-owned life insurance policies	81,197	81,197	—	81,197	—	80,037	80,037	—	80,037	—
Derivative assets	30,039	30,039	—	30,039	—	21,838	21,838	—	21,775	63
<b>Financial Liabilities</b>										
Non-maturity deposits	\$2,719,992	\$2,309,555	\$ —	\$2,309,555	\$ —	\$2,482,012	\$2,325,307	\$ —	\$2,325,307	\$ —
Time deposits	323,439	315,180	—	315,180	—	658,482	651,855	—	651,855	—
Securities sold under agreements to repurchase	13,369	13,369	—	13,369	—	38,504	38,504	—	38,504	—
FHLB advances	320,588	320,244	—	320,244	—	232,579	232,375	—	232,375	—
Subordinated borrowings	60,289	66,846	—	66,846	—	60,422	67,635	—	67,635	—
Derivative liabilities	25,228	25,228	—	25,228	—	15,607	15,607	—	15,587	20

(in thousands)	December 31, 2021					December 31, 2022				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets</b>						<b>Financial Liabilities</b>				
Cash and cash equivalents	\$ 250,389	\$ 250,389	\$250,389	\$ —	\$ —	\$ 92,295	\$ 92,295	\$92,295	\$ —	\$ —
Securities available for sale	618,276	618,276	—	618,276	—	559,516	559,516	—	559,516	—
FHLB stock	7,384	7,384	—	7,384	—	14,893	14,893	—	14,893	—

Loans held for sale	5,523	5,523	—	5,523	—	—	—	—	—	—
Net loans	2,509,192	2,442,741	—	—	2,442,741	2,902,690	2,774,863	—	—	2,774,863
Accrued interest receivable	2,712	2,712	—	2,712	—	4,257	4,257	—	4,257	—
Cash surrender value of bank-owned life insurance policies	79,020	79,020	—	79,020	—	81,197	81,197	—	81,197	—
Derivative assets	14,148	14,148	—	13,850	298	30,039	30,039	—	30,039	—
<b>Financial Liabilities</b>										
Non-maturity deposits	\$2,623,012	\$2,853,000	\$	—	\$2,853,000	\$	—	\$2,719,992	\$2,309,555	\$
Time deposits	425,532	424,000	—	424,000	—	323,439	315,180	—	315,180	—
Securities sold under agreements to repurchase	19,802	19,802	—	19,802	—	13,369	13,369	—	13,369	—
FHLB advances	98,598	98,439	—	98,439	—	320,588	320,244	—	320,244	—
Subordinated borrowings	60,124	61,884	—	61,884	—	60,289	66,846	—	66,846	—
Derivative liabilities	15,257	15,257	—	15,257	—	25,228	25,228	—	25,228	—

**NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS**

We have accounted for the various non-interest revenue streams and related contracts under ASC 606.

**Disaggregation of Revenue**

The following tables present disaggregation of our non-interest revenue by major business line and timing of revenue recognition for the transfer of products or services:

(in thousands)	Year Ended December 31,		Year Ended December	
	2022	2021	31,	2023
<b>Major Products/Service Lines</b>				
<b>Non-interest income within the scope of ASC 606:</b>				
Trust management fees	\$ 13,022	\$ 13,495	\$12,766	\$13,022
Financial services fees	1,551	1,684	1,517	1,551
Interchange fees	7,736	7,368	7,845	7,736
Customer deposit fees	5,935	4,905	6,280	5,935
Other customer service fees	1,120	939	1,043	1,120
<b>Total</b>	<b>\$ 29,364</b>	<b>\$ 28,391</b>		
<b>Total non-interest income within the scope of ASC 606</b>			<b>29,451</b>	<b>29,364</b>
Total non-interest income not within the scope of ASC 606			6,378	5,957
<b>Total non-interest income</b>			<b>\$35,829</b>	<b>\$35,321</b>

(in thousands)	Year Ended December 31,		Year Ended December	
	2022	2021	31,	2023
<b>Timing of Revenue Recognition</b>				
Products and services transferred at a point in time				
Products and services transferred at a point in time	\$ 15,552	\$ 14,250	\$15,751	\$15,552
Products and services transferred over time	13,812	14,141	13,700	13,812
<b>Total</b>	<b>\$ 29,364</b>	<b>\$ 28,391</b>	<b>\$29,451</b>	<b>\$29,364</b>

#### **Trust Management Fees**

The trust management business generates revenue through a range of fiduciary services including trust and estate administration, financial advice, and investment management to individuals, businesses, not-for-profit organizations, and municipalities. These fees are primarily earned over time as we charge our customers on a monthly or quarterly basis in accordance with investment advisory agreements. Fees are generally assessed based on a tiered scale of the market value of **assets under management AUM** at month end. Certain fees, such as bill paying fees, distribution fees, real estate sale fees, and supplemental tax service fees, are recorded as revenue at a point in time upon the completion of the service.

#### **Financial Services Fees**

Bar Harbor Financial Services is a branch office of **Infinex, Osaic**, an independent registered broker dealer offering securities and insurance products not affiliated with the Company or its subsidiaries. We have a revenue sharing agreement with **Infinex, Osaic** for any financial service fee income generated. Financial services fees are recognized at a point in time upon the completion of service requirements.

#### **Interchange Fees**

We earn interchange fees from transaction fees that merchants pay whenever a customer uses a debit card to make a purchase from their store. The fees are paid to the card-issuing bank to cover handling costs, fraud, bad debt costs and the risk involved in approving the payment. Interchange fees are generally recognized as revenue at a point in time upon the completion of a debit card transaction.

#### **Customer Deposit Fees**

The customer deposit business offers a variety of deposit accounts with a range of interest rates, fee schedules and other terms, which are designed to meet the customer's financial needs. Additional depositor-related services provided to customers include ATM, bank-by-phone, internet banking, internet bill pay, mobile banking, and other cash management

services which include remote deposit capture, ACH origination, and wire transfers. These customer deposit fees are generally recognized at a point in time upon the completion of the service.

[Table of Contents](#)

**Other Customer Service Fees**

We have certain incentive and referral fee arrangements with independent third parties in which fees are earned for new account activity, product sales, or transaction volume generated for the respective third parties. We also earn a percentage of the fees generated from third-party credit card plans promoted through the Bank. Revenue from these incentive and referral fee arrangements is recognized over time using the right to invoice measure of progress.

**Contract Balances with Customers**

The following table provides information about contract assets or receivables and contract liabilities or deferred revenues from contracts with customers:

(in thousands)	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
<b>Balances from contracts with customers only:</b>				
Other Assets	\$ 1,211	\$ 1,184	\$ 1,178	\$ 1,211
Other Liabilities	2,345	2,324	1,769	2,345

The timing of revenue recognition, billings and cash collections results in contract assets or receivables and contract liabilities or deferred revenue on the consolidated balance sheets. For most customer contracts, fees are deducted directly from customer accounts and, therefore, there is no associated impact on the accounts receivable balance. For certain types of service contracts, we have an unconditional right to consideration under the service contract and an accounts receivable balance is recorded for services completed. When consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue after control of the products or services is transferred to the customer and all revenue recognition criteria have been met.

**Costs to Obtain and Fulfill a Contract**

We currently expense contract costs for processing and administrative fees for debit card transactions. We also expense custody fees and transactional costs associated with securities transactions as well as third party tax preparation fees. We have elected the practical expedient in ASC 340-40-25-4, whereby we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets we otherwise would have recognized is one year or less.

**NOTE 16. LEASES**

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. Most of our leases are for branches, ATM locations, and office space and have terms extending through 2040. All leases are classified as operating leases, and are recognized on the consolidated balance sheets as a right-of-use ("ROU") asset with a corresponding lease liability.

The following table presents the consolidated statements of condition classification of the ROU assets and lease liabilities:

(in thousands)		Classification	December 31, 2022	December 31, 2021	Classification	December 31, 2023	December 31, 2022
<b>Lease Right-of-Use Assets</b>							
Operating lease right-of-use assets		Other assets	\$ 8,078	\$ 9,274	Other assets	\$ 6,874	\$ 8,078
<b>Lease Liabilities</b>							
Operating lease liabilities		Other liabilities	8,501	9,643	Other liabilities	7,322	8,501

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used for the present value of the minimum lease payments. The lease agreements often include one or more options to renew at our discretion. If at lease inception, we consider the exercising of a renewal option to be reasonably certain, we will include the extended term in the calculation of the ROU asset and lease liability.

114

---

#### [Table of Contents](#)

one or more options to renew at our discretion. If at lease inception, we consider the exercising of a renewal option to be reasonably certain, we will include the extended term in the calculation of the ROU asset and lease liability.

The following table presents the weighted average lease term and discount rate of the leases:

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
<b>Weighted-average remaining lease term (in years)</b>				
Operating leases	7.17	8.03	6.28	7.17
<b>Weighted-average discount rate</b>				
Operating leases	3.09 %	3.07 %	3.10 %	3.09 %

The following table represents lease costs and other lease information. As we have elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as real estate taxes, common area maintenance and utilities.

(in thousands)	Year Ended			Year Ended		
	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2023	December 31, 2022	December 31, 2021
<b>Lease Costs</b>						
Operating lease cost	\$ 1,344	\$ 1,295	\$ 1,285	\$ 1,343	\$ 1,344	\$ 1,295
Variable lease cost	402	229	271	485	402	229
<b>Total lease cost</b>	<b>\$ 1,746</b>	<b>\$ 1,524</b>	<b>\$ 1,556</b>	<b>\$ 1,828</b>	<b>\$ 1,746</b>	<b>\$ 1,524</b>

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2022 December 31, 2023 are, as follows:

(in thousands)	Payments	Payments
<b>Twelve Months Ended:</b>		
December 31, 2023	\$ 1,343	
December 31, 2024	1,316	\$ 1,316
December 31, 2025	1,092	1,092
December 31, 2026	987	987
December 31, 2027	864	864
December 31, 2028		726
Thereafter	3,210	2,484
<b>Total future minimum lease payments</b>	8,812	7,469
Amounts representing interest	(311)	(147)
<b>Present value of net future minimum lease payments</b>	<u>\$ 8,501</u>	<u>\$ 7,322</u>

115

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[Table of Contents](#)

**NOTE 17. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY**

The condensed balance sheets of Bar Harbor Bankshares as of December 31, 2022 December 31, 2023 and 2021, 2022, and the condensed statements of income and cash flows for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020 2021 are presented below:

**CONDENSED BALANCE SHEETS**

(in thousands)	December 31,		December 31,	
	2022	2021	2023	2022
<b>Assets</b>				
Cash	\$ 7,350	\$ 2,572	\$ 7,850	\$ 7,350
Investment in subsidiaries	447,937	480,534	484,574	447,937
Premises and equipment	765	792	785	765
Other assets	3,130	6,458	5,070	3,130
<b>Total assets</b>	<u>\$ 459,182</u>	<u>\$ 490,356</u>	<u>\$ 498,279</u>	<u>\$ 459,182</u>
<b>Liabilities and Shareholders' Equity</b>				
Subordinated notes	\$ 60,289	\$ 60,124	\$ 60,461	\$ 60,289
Accrued expenses	5,443	6,085	5,759	5,443
Shareholders' equity	393,450	424,147	432,059	393,450
<b>Total liabilities and shareholders' equity</b>	<u>\$ 459,182</u>	<u>\$ 490,356</u>	<u>\$ 498,279</u>	<u>\$ 459,182</u>

**CONDENSED STATEMENTS OF INCOME**

(in thousands)	Years Ended December 31,			Years Ended December 31,		
	2022	2021	2020	2023	2022	2021
Income:						
Dividends from subsidiaries	\$ 20,682	\$ 15,557	\$ 8,024	\$23,156	\$20,682	\$15,557
Other income	976	740	742	1,142	976	740
Total income	21,658	16,297	8,766	24,298	21,658	16,297
Interest expense	2,981	2,632	2,750	3,691	2,981	2,632
Non-interest expense	5,183	5,455	4,465	5,834	5,183	5,455
Total expense	8,164	8,087	7,215	9,525	8,164	8,087
Income before taxes and equity in undistributed income of subsidiaries	13,493	8,210	1,552	14,773	13,493	8,210
Income tax benefit	(1,709)	(1,741)	(1,539)	(1,985)	(1,709)	(1,741)
Income before equity in undistributed income of subsidiaries	15,202	9,951	3,091	16,758	15,202	9,951
Equity in undistributed income of subsidiaries	28,355	29,348	30,153	28,094	28,355	29,348
Net income	<b>\$ 43,557</b>	<b>\$ 39,299</b>	<b>\$ 33,244</b>	<b>\$44,852</b>	<b>\$43,557</b>	<b>\$39,299</b>

[Table of Contents](#)

**CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands)	Years Ended December 31,			Years Ended December 31,		
	2022	2021	2020	2023	2022	2021
Cash flows from operating activities:						
Net income	\$ 43,557	\$ 39,299	\$ 33,244	\$ 44,852	\$ 43,557	\$ 39,299
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in undistributed income of subsidiaries	(28,355)	(29,348)	(30,153)	(28,094)	(28,355)	(29,348)
Other, net	3,187	(5,582)	3,840	(1,537)	3,187	(5,582)
Net cash provided by operating activities	<b>18,389</b>	<b>4,369</b>	<b>6,931</b>	<b>15,221</b>	<b>18,389</b>	<b>4,369</b>
Cash flows from investing activities:						
Acquisitions, net of cash paid	—	—	—	—	—	—
Purchase of securities	—	—	—	—	—	—
Capital contribution to subsidiary	—	—	—	—	—	—
Net cash (used in) investing activities	—	—	—	—	—	—
Cash flows from financing activities:						
Proceeds from issuance of subordinated debt	—	—	—	—	—	—
Repayment of subordinated debt	—	—	—	—	—	—
Net proceeds from common stock	1,723	1,534	2,192	1,845	1,723	1,534
Net proceeds from reissuance of treasury stock	—	—	(14,188)	—	—	—
Common stock cash dividends paid	(15,334)	(14,072)	(13,417)	(16,566)	(15,334)	(14,072)
Net cash used in financing activities	<b>(13,611)</b>	<b>(12,538)</b>	<b>(25,413)</b>	<b>(14,721)</b>	<b>(13,611)</b>	<b>(12,538)</b>

Net change in cash and cash equivalents	4,778	(8,169)	(18,482)	500	4,778	(8,169)
Cash and cash equivalents at beginning of year	2,572	10,741	29,223	7,350	2,572	10,741
Cash and cash equivalents at end of year	\$ 7,350	\$ 2,572	\$ 10,741	\$ 7,850	\$ 7,350	\$ 2,572

#### NOTE 18. SUBSEQUENT EVENTS

There were no significant subsequent events between December 31, 2022 December 31, 2023 and through the date the financial statements are issued.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

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#### [Table of Contents](#)

#### ITEM 9A. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures:** The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this Annual Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and are operating in an effective manner.

**Management Report on Internal Control over Financial Reporting:** Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of **December 31, 2022** **December 31, 2023**. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework* (2013).

Based on its assessment, management believes that as of **December 31, 2022** **December 31, 2023**, the Company's internal control over financial reporting is effective, based on the criteria set forth by COSO in *Internal Control – Integrated Framework* (2013).

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This audit report appears within Item 8 of this Annual Report.

**Changes in Internal Control Over Financial Reporting:** No change in the internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the last fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

##### **Trading Arrangements**

During the quarter ended December 31, 2023, no director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement" as such terms are defined in Item 408(a) of Regulation S-K.

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##### [Table of Contents](#)

##### **Josephine Iannelli Employment Agreement**

On March 8, 2024, the Company and the Bank, entered into a new employment agreement with Josephine Iannelli with respect to the terms of Ms. Iannelli's continued service as our and the Bank's Chief Financial Officer (the "Employment Agreement"). The Employment Agreement supersedes and replaces the current employment agreement with Ms. Iannelli, which was entered into on September 14, 2020. The terms of the Employment Agreement were approved by the compensation and human resources committee of our Board of Directors (the "Compensation Committee"), and the compensation terms were established in part based upon the advice of our independent compensation consultant.

The initial term of the Employment Agreement is three years. In the absence of notice of intent not to extend the Employment Agreement, then the Employment Agreement will automatically extend for additional one-year terms. The Employment Agreement includes certain restrictive covenants that survive Ms. Iannelli's termination of employment for a period of one year with respect to competition with us and non-solicitation of our customers and employees.

Under the terms of the Employment Agreement, Ms. Iannelli is entitled to an annual base salary of \$459,000, which will be reviewed annually by the Compensation Committee, and the Employment Agreement further provides that her base compensation will not be reduced downward during the term of the Employment Agreement. We have also agreed to pay Ms. Iannelli certain other consideration and benefits. Ms. Iannelli is also eligible to participate in our annual incentive and long-term incentive plans previously approved by our Board. Other benefits under the Employment Agreement include participation in our Company benefit plans provided to other similarly situated executives and reasonable paid vacation and sick leave benefits consistent with our vacation and sick leave policies.

Ms. Iannelli's Employment Agreement also provides for certain benefits and payments to her in the event she is terminated without "cause", if she resigns with "good reason" (as those terms are defined in the Employment Agreement), or if the Employment Agreement is not renewed following the initial term. In addition to accrued benefits, her payment upon termination of the Employment Agreement without cause, resignation with good reason or termination of employment due to non-renewal will include (i) a lump sum payment equal to three times her base compensation as of the effective date of termination of employment, and (ii) a payment equal to 36 months of our share of premium contributions for group health benefits (including medical, vision and dental benefits). If such termination without cause or with good reason occurs as a result, or in anticipation, of a change in control (as such term is defined in the Employment Agreement), then Ms. Iannelli will also be eligible to receive a payment equal to three times her target annual bonus for such year. In each case, severance payments are conditioned on Ms. Iannelli providing us with a release of claims and complying with applicable post-employment covenants. Severance payments under the Employment Agreement may be reduced to the extent necessary to avoid the adverse tax consequences of Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended.

The foregoing description of the Employment Agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text thereof, which is included as Exhibit 10.4 to this Annual Report and is incorporated into this Item 9B by reference.

#### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.**

None.

119

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[Table of Contents](#)

#### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of Bar Harbor Bankshares and **Subsidiaries**: **Subsidiaries**

##### **Opinion on the Internal Control Over Financial Reporting**

We have audited Bar Harbor Bankshares and **Subsidiaries' Subsidiaries** (the Company) internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, based on criteria established in **Internal Control—Control** — **Integrated Framework** issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, based on criteria established in **Internal Control—Control** — **Integrated Framework** issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, the related consolidated statements of income, comprehensive income, changes in **shareholders' shareholders'** equity and cash flows for each of the three years in the period ended **December 31, 2022** **December 31, 2023**, and the related notes to the consolidated financial statements of the Company and our report dated **March 14, 2023** **March 11, 2024** expressed an unqualified opinion.

##### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying "Management Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company; Company are being made only in accordance with authorizations of management and directors of the company; Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Boston, Massachusetts Hartford, Connecticut

March 14, 2023 11, 2024

119 120

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#### [Table of Contents](#)

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

The information required in response to this Item 10 is incorporated herein by reference to the Company's Definitive Proxy Statement relating to the 2023 2024 Annual Meeting of Shareholders (the "2023" "2024 Proxy Statement") to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report and is incorporated herein by reference.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information called for by this item is set forth in our 2023 2024 Proxy Statement, and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information called for by this item is set forth in our **2023** **2024** Proxy Statement, and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information called for by this item is set forth in our **2023** **2024** Proxy Statement, and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information called for by this item is set forth in our **2023** **2024** Proxy Statement, and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

1. All Financial Statements

The consolidated financial statements of the Company and report of the Company's independent registered public accounting firm incorporated herein are included in Item 8 of this Annual Report as follows:

Item	Page
<a href="#">Report of Independent Registered Public Accounting Firm</a> (PCAOB ID: 49)	<b>49</b> <b>52</b>
<a href="#">Consolidated Balance Sheets</a>	<b>51</b> <b>54</b>
<a href="#">Consolidated Statements of Income</a>	<b>53</b> <b>55</b>
<a href="#">Consolidated Statements of Comprehensive Income</a>	<b>54</b> <b>56</b>
<a href="#">Consolidated Statements of Changes in Shareholders' Equity</a>	<b>55</b> <b>57</b>
<a href="#">Consolidated Statements of Cash Flows</a>	<b>56</b> <b>58</b>
<a href="#">Notes to Consolidated Financial Statements</a>	<b>58</b> <b>59</b>

121

---

[Table of Contents](#)

2. Financial Statement Schedules. Schedules have been omitted because they are not applicable or are not required under the instructions contained in Regulation S-X or because the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

120

---

[Table of Contents](#)

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	<a href="#">Articles of Incorporation, as amended to date (incorporated herein by reference to Exhibit 3.1 to the Quarterly Report to Form 10-Q filed on November 5, 2015)</a>
3.2	<a href="#">Amended and Restated Bylaws of Bar Harbor Bankshares (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on May 18, 2020)</a>
4.1	<a href="#">Certificate of Designations, Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on January 21, 2009)</a>
4.2	<a href="#">Form of Specimen Stock Certificate for Series A Preferred Stock (incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on January 21, 2009)</a>
4.3	<a href="#">Debt Securities Purchase Agreement (incorporated herein by reference to Exhibit 4.5 to the Annual Report on Form 10-K filed on March 16, 2009)</a>
4.4	<a href="#">Form of Subordinated Debt Security of Bar Harbor Bank &amp; Trust (incorporated herein by reference to Exhibit 4.6 to the Annual Report on Form 10-K filed on March 16, 2009)</a>
4.5	<a href="#">Description of Company Common Stock (incorporated herein by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on August 7, 2015)</a>
4.6*	<a href="#">Indenture, dated as of November 26, 2019, by and between Bar Harbor Bankshares and U.S. Bank, National Association. (incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on November 26, 2019)</a>
4.7	<a href="#">Form of 4.625% Fixed-to-floating Subordinated Note due 2029 of Bar Harbor Bankshares (incorporated herein by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on November 26, 2019)</a>
10.1†	<a href="#">Bar Harbor Bankshares Executive Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on November 21, 2018)</a>
10.2†	<a href="#">Bar Harbor Bankshares Executive Change in Control Severance Plan Participation Agreement (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on November 21, 2018)</a>
10.3†	<a href="#">Employment Agreement, dated as of February 22, 2018, between Bar Harbor Bankshares, Bar Harbor Bank &amp; Trust and Curtis C. Simard (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on February 22, 2018)</a>
10.4†**	<a href="#">Employment Agreement, dated as of September 14, 2020 March 8, 2024, between Bar Harbor Bankshares, Bar Harbor Bank &amp; Trust and Josephine Iannelli (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 28, 2016)</a>
10.5†	<a href="#">2019 through 2021 Long Term Executive Incentive Program Guidelines (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 17, 2018)</a>
10.6†	<a href="#">2020 through 2022 Long Term Executive Incentive Program Guidelines (incorporated herein by reference to Exhibit 10.6 to the Annual Report on Form 10-K filed on March 14, 2022)</a>
10.7† 10.6†	<a href="#">2021 through 2023 Long Term Executive Incentive Program Guidelines (incorporated herein by reference to Exhibit 10.7 to the Annual Report on Form 10-K filed on March 14, 2022)</a>

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[Table of Contents](#)

10.8†** 10.7†	<a href="#">2022 through 2024 Long Term Executive Incentive Program Guidelines (incorporated herein by reference to Exhibit 10.8 to the Annual Report on Form 10-K filed on March 14, 2023).</a>
10.8†	<a href="#">2023 through 2025 Long Term Executive Incentive Program Guidelines (incorporated herein by reference to Exhibit 10.9 to the Annual Report on Form 10-K filed on March 14, 2023).</a>
10.9†**	<a href="#">2023 2024 through 2025 2026 Long Term Executive Incentive Program Guidelines</a>
10.10†	<a href="#">Form of Incentive Stock Option Agreement under Equity Incentive Plan of 2015, Form of Restricted Stock Agreement (Directors) under Equity Incentive Plan of 2015 (incorporated herein by reference to Exhibit 10.2 to the Registration Statement on Form S-8 filed on August 18, 2015).</a>
10.11†	<a href="#">Form of Restricted Stock Agreement (Directors) under Equity Incentive Plan of 2015 (incorporated herein by reference to Exhibit 10.3 to the Registration Statement on Form S-8 filed on August 18, 2015).</a>
10.12†	<a href="#">Form of Restricted Stock and Performance-Based Restricted Stock Unit Agreement under Equity Incentive Plan of 2015 (incorporated herein by reference to Exhibit 10.4 to the Registration Statement on Form S-8 filed on August 18, 2015).</a>
10.13†	<a href="#">Bar Harbor Bankshares 2019 Equity Plan (incorporated herein by reference to Appendix B to the Company's Definitive Proxy Statement on Form DEF 14A dated April 15, 2019).</a>
10.14†**	<a href="#">Form of Restricted Stock and Performance-Based Restricted Stock Unit Agreement under Bar Harbor Bankshares 2019 Equity Plan (incorporated herein by reference to Exhibit 10.14 to the Annual Report on Form 10-K filed on March 14, 2023).</a>
10.15†	<a href="#">Form of Subordinated Note Purchase Agreement, dated as of November 26, 2019, by and among Bar Harbor Bankshares and the several purchasers of 4.625% Fixed-to-Floating Subordinated Notes due 2029 (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on November 26, 2019).</a>
10.16	<a href="#">Somesville Bank Branch Lease dated October 27, 2005 (incorporated herein by reference to Exhibit 10 to the Annual Report on Form 10-K filed on March 16, 2006).</a>

Exhibit No.	Description
21.1**	
<hr/>	
Exhibit No.	Description
21.1	<a href="#">Subsidiaries of the Registrant (incorporated herein by reference to Exhibit 10.9 to the Annual Report on Form 10-K filed on March 14, 2023).</a>
23.1**	<a href="#">Consent of Independent Registered Public Accounting Firm, RSM US LLP</a>
31.1**	<a href="#">Certification of Chief Executive Officer under Rule 13a-14(a)/15d-14(a).</a>
31.2**	<a href="#">Certification of Chief Financial Officer under Rule 13a-14(a)/15d-14(a).</a>

32.1***	<a href="#">Certification of Chief Executive Officer under 18 U.S.C. Sec. 1350.</a>
32.2**	<a href="#">Certification of Chief Financial Officer under 18 U.S.C. Sec. 1350.</a>
97**	<a href="#">Bar Harbor Bankshares Incentive-Based Compensation Recovery Policy</a>
101**	The following financial information from the Company's Annual Report on Form 10-K for the year ended <b>December 31, 2022</b> December 31, 2023 is formatted in inline XBRL: (i) Consolidated Condensed Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Changes in Shareholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Condensed Financial Statements

123

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[Table of Contents](#)

104 Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)

- \* Certain schedules and similar attachments have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant will furnish a copy of any omitted schedule to the Securities and Exchange Commission upon request.
- † Indicates management contract or compensatory plan.
- \*\* Filed herewith.
- \*\*\* Furnished herewith.

**ITEM 16. FORM 10-K SUMMARY**

None.

122 124

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[Table of Contents](#)

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: **March 14, 2023** March 11, 2024

/s/ Curtis C. Simard

Name: Curtis C. Simard  
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on **March 14, 2023** **March 14, 2024** by the following persons on behalf of the Registrant and in the capacities indicated.

**/s/ David B. Woodside**

David B. Woodside, Chairman, Board of Directors

**/s/ Curtis C. Simard**

Curtis C. Simard, Director

President & Chief Executive Officer

(Principal Executive Officer)

**/s/ Daina H. Belair**

Daina H. Belair, Director

**/s/ Josephine Iannelli**

Josephine Iannelli

Executive Vice President and Chief Financial Officer

(Principal Financial and Principal Accounting Officer)

**/s/ Matthew L. Caras**

Matthew Caras, Director

**/s/ Brendan O'Halloran Debra B. Miller**

Brendan O'Halloran, Debra B. Miller, Director

**/s/ David M. Colter**

David M. Colter, Director

**/s/ Kenneth E. Smith Brian D. Shaw**

Kenneth E. Smith, Director

**/s/ Steven H. Dimick**

Steven H. Dimick, Director

**/s/ Debra B. Miller**

Debra B. Miller, Brian D. Shaw, Director

**/s/ Martha Tod Dudman**

Martha Tod Dudman, Director

**/s/ Scott G. Toothaker Kenneth E. Smith**

Scott G. Toothaker, Kenneth E. Smith, Director

**/s/ Lauri E. Fernald**

Lauri E. Fernald, Director

123125

Exhibit **10.8 10.4**

**2022- EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** (the "Agreement") is made this 8 day of March, 2024, Long Term Executive Incentive Program Guidelines

This document summarizes the elements by and features of between **BAR HARBOR BANKSHARES**, a Maine corporation with its headquarters located in Bar Harbor, **Bankshares ("BHB" Maine (the "Company"))**, **BAR HARBOR BANK & TRUST**, a wholly-owned subsidiary of the Company (the "Bank") 2022-2024 Long Term (together, the "Employer"), and **JOSEPHINE IANNELLI**, residing at the address on file with the Employer (the "Executive").

**WITNESSETH:**

WHEREAS, the Employer desires to continue employing the Executive, Incentive Program ("LTEIP"). Awards under and the LTEIP are granted under the Bar Harbor Bankshares 2019 Equity Plan (the "Plan") and are subject to Executive's desire to continue such employment upon the terms and conditions set forth herein, including, without limitation, the restrictive covenants in Sections 10 and 11 herein.

NOW, THEREFORE, in consideration of the Plan mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties agree as follows:

**1. DEFINITIONS.**

1.1 "Cause" shall mean: (i) the Executive is convicted of, or pleads guilty, no contest or nolo contendere to, or enters into a pre-trial diversion program in connection with, any crime or criminal offense involving dishonesty, breach of trust, money laundering, or the illegal manufacture, sale or distribution of, or trafficking in, controlled substances; (ii) the Executive's gross or willful misconduct, gross or willful negligence, or gross insubordination in connection with the performance of her duties, functions or responsibilities for the Employer; (iii) the Executive engages in or commits an act of fraud, misappropriation, material dishonesty, theft, embezzlement, conversion, self-dealing, obtaining funds or property under false pretenses, or other material malfeasance against or in connection with the business of the Company, the Bank, or any of their subsidiaries or affiliates; (iv) the Executive breaches any fiduciary duty she owes to the Employer; (v) the Executive materially violates any federal, state or local securities or banking laws, rules or regulations, or any rules or regulations of any applicable Award Agreement entered into thereunder. Capitalized terms used but regulatory or self-regulatory organization, and such violation, if curable under the circumstances (as determined by the Employer, in its reasonable discretion), is not defined herein shall have cured to the meanings ascribed in Employer's reasonable satisfaction within thirty (30) days after the Plan.

Individually and collectively, BHB believes Executive's receipt of written notice of such breach (the "Cause Cure Period"); (vi) the executive team has the ability to influence and drive BHB's success. The LTEIP is designed to reward executives for driving BHB's success.

The objectives Executive's material breach of the LTEIP are to: Company's drug and alcohol use, harassment and discrimination-free work environment, or workplace violence policies, or any other similarly material written policy or rule of the Employer, and such breach, if curable under the circumstances (as determined by the Employer, in its reasonable discretion), is not cured to the Employer's reasonable satisfaction within the Cause Cure Period; and/or (vii) the Executive's material breach of Section 10 or Section 11 of this Agreement and such breach, if curable under the circumstances (as determined by the Employer, in its reasonable discretion), is not cured to the Employer's reasonable satisfaction within the Cause Cure Period. For purposes of clauses (v), (vi) and (vii) of this paragraph, if the Executive cures the specified violation or breach during the Cause Cure Period, Cause shall be deemed not to have occurred, provided that the Executive may cure a specific violation or breach for which she is entitled to notice only one (1) time and, if the same violation or breach occurs again, the violation or breach shall constitute Cause.

1.2 "Change in Control" shall mean the occurrence of any one of the following events:

- 1.2.1 Align Any person, including a group (as such term is used in Section 13(d) of the **Securities Exchange Act of 1934**, as amended (the "Exchange Act")), becomes the beneficial owner (as determined pursuant to Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or the Bank representing more than fifty percent (50%) of the combined voting power of the Company's or the Bank's then outstanding securities, other than as a result of an issuance of securities initiated by the Company or the Bank in the ordinary course of its business; or
- 1.2.2 Increase executive stock ownership/holdings; The Company or the Bank is party to a Business Combination (as hereinafter defined) unless, following consummation of the Business Combination, more than fifty percent (50%) of the outstanding voting securities of the resulting entity are beneficially owned, directly or indirectly, by the holders of the Company's or the Bank's outstanding voting securities immediately prior to the Business Combination in substantially the same proportions as those existing immediately prior to the Business Combination; or

1.2.3 The stockholders of the Company or the Bank approve a plan of complete liquidation of the Company or the Bank or an agreement for the sale or disposition by the Company or the Bank of all or substantially all of the Company's or the Bank's assets to another person or entity that is not a wholly-owned subsidiary of the Company or the Bank.

For purposes of this Section 1.2, a Business Combination means any cash tender or exchange offer, merger or other business combination, sale of stock, or sale of all or substantially all of the assets, or any combination of the foregoing transactions.

For purposes of this Section 1.2, a Change in Control shall exclude any internal corporate change, reorganization, or other such event, and a purchase of securities or assets of the Company or the Bank by any employee benefit plan maintained by the Company or the Bank, which occurred prior to or may occur following the Effective Date of this Agreement.

1.3 "Code" shall mean the Internal Revenue Code of 1986, as amended, together with the rules and regulations promulgated thereunder.

1.4 "Confidential Information" shall mean any and all information and compilations of information, in whatever form or medium (including any copies thereof), relating to any part of the business of the Company, the Bank, or any of their subsidiaries or affiliates, or the business of their customers, provided to the Executive, or which the Executive obtained, compiled or had access to, or had obtained or compiled on her behalf, which information or compilations of information are not a matter of public record or generally known or available to the public, including, without limitation, but subject to the foregoing, the following:

- 1.4.1 Financial information regarding the Company, the Bank, or any of their subsidiaries or affiliates;
- 1.4.2 Ensure sound risk management by providing a balanced view Subject to applicable law, personnel data, including compensation arrangements relating to any employees of performance and aligning rewards with the time horizon Company, the Bank, or any of risk; their subsidiaries or affiliates (excluding data regarding the Executive that is part of her personnel file);
- 1.4.3 Position BHB's total compensation to be competitive with market for meeting performance goals; internal plans, practices, and procedures of the Company, the Bank, or any of their subsidiaries or affiliates;
- 1.4.4 Motivate The names, personal identifying information, portfolio information, investment strategies, requirements, lending, deposit or other account information, or any similar information, of any customers, clients, or prospects of the Company, the Bank, or any of their subsidiaries or affiliates;
- 1.4.5 Business methods and reward long-term sustained performance; marketing strategies of the Company, the Bank, or any of their subsidiaries or affiliates;
- 1.4.6 Any other information expressly identified to Executive as confidential by the officers and directors of the Company, the Bank, or any of their subsidiaries or affiliates; and
- 1.4.7 Enable BHB to attract The terms and retain talent needed to drive BHB's success. conditions of this Agreement and any documents or instruments executed in connection herewith that are not of public record.

1.5 "Disability" shall mean a condition: (a) which causes the Executive to be unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which can be expected to last for a continuous period of not less than twelve (12) months; or (b) which results in her receiving, by reason of any medically determinable physical or mental impairment which can be expected to result in death or which can be expected to last for a continuous period of not less than twelve (12) months, income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Employer. Disability shall be deemed to exist only when the disability has been certified to the Board of Directors of the Company by a licensed physician approved by the Board of Directors of the Company.

**Eligibility** 1.6 "Effective Date" shall mean the close of business on March 8, 2024.

1.7 "Good Reason" shall mean the occurrence of one or more of the following events without the consent of the Executive:

- 1.7.1 Eligibility to participate A material diminution in the LTEIP is limited to named executive officers and selected Senior Executive Team ("SET") members nominated by the CEO and approved by the Compensation and Human Resources Committee of the Board of Directors (the "Committee").Executive's Base Compensation;
- 1.7.2 Participants must be an active employee as of A material diminution or adverse change in the vesting date Executive's authority, duties, or responsibilities;
- 1.7.3 A material diminution or adverse change in the authority, duties, or responsibilities. This would include reporting to receive an award unless otherwise approved by a Corporate Officer other than the Committee. CEO;

1.7.4 A material diminution or adverse change in the budget over which the Executive retains authority;

Grants under the LTEIP will consist of a combination of time-vesting Restricted Stock and performance-vesting Restricted Stock Units.

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1.7.5 Time-vested Restricted Stock ("TRS") supports executive ownership and retention objectives. TRS grants will vest A material change in equal installments over three years on April 23, 2023, April 23, 2024 and April 23, 2025 (e.g. 1/3 per year).the geographic location at which the Executive must perform a substantial portion of her services, which for purposes of this Agreement means a location that is more than one hundred (100) miles from Bar Harbor, Maine;

1.7.6 Performance-vested Restricted Stock Units ("PRSUs") promote pay for performance since the awards only vest when predefined performance goals are met. PRSU grants will vest, if at all, after three year performance period ends, on April 23, 2025, if the performance measures established Any other action or inaction that constitutes a material breach by the Committee are met. Employer of this Agreement or any other agreement under which the Executive provides services to the Employer or the Employer provides compensation or benefits to Executive; or

1.7.7 If the Employer delivers a Notice of Termination for Cause to the Executive pursuant to Section 7.1 and it is determined by an arbitrator pursuant to Section 13.4 that grounds for termination for Cause did not in fact exist.

In general, LTEIP awards will be granted 1.8 "Notice of Termination" shall mean the written communication provided to the other party in the event of the Executive's termination of employment (i) by the Employer for Cause or on account of the Executive's Disability or (ii) by the Executive for Good Reason. A Notice of Termination must indicate the specific provisions in this Agreement upon which the applicable party relies as the basis for the participants Executive's termination of employment and must also set forth in reasonable detail the facts and circumstances claimed to provide the basis for such termination of employment under the provisions so indicated.

1.9 "Standard Restrictive Period" shall mean the period commencing on the Effective Date and terminating on the one (1) year anniversary of the Executive's termination of employment with the Company, the Bank, and all of their subsidiaries and affiliates, regardless of reason and whether or not pursuant to this Agreement.

1.10 "Noncompetition Restrictive Period" shall mean the period commencing six (6) months following the Effective Date and terminating on the one (1) year anniversary of the Executive's termination of employment with the Company, the Bank, and all of their subsidiaries and affiliates, regardless of reason and whether or not pursuant to this Agreement.

## 2. **EMPLOYMENT.**

As of the Effective Date, the Employer hereby continues to employ the Executive, and the Executive hereby agrees to continue her employment with the Employer, as the Chief Financial Officer of the Company, the Bank, Bar Harbor Trust Services, and other subsidiaries and affiliates of the Company and/or the Bank (the "Company Group"), on the terms and conditions specified herein.

## 3. **TERM OF EMPLOYMENT.**

3.1 **Term.** The Executive's employment shall be for a term of three (3) years commencing on the Effective Date and ending on the third anniversary of the Effective Date (the "Term"), unless terminated sooner pursuant to this Agreement. The Employer agrees to notify the Executive not less than one hundred and twenty (120) days prior to the third anniversary of the Effective Date if it does not intend to extend the Executive's employment.

3.2 **Extension.** In the absence of notice of intent not to extend this Agreement by the Employer, the Agreement shall be deemed automatically extended for additional one (1) year terms commencing on the applicable anniversary of the Effective Date. After the initial extension of the Term, the Employer agrees to a like notice period and subsequent extensions of this Agreement, unless and until the Employer and the Executive shall mutually agree to modify the terms of this Agreement. During any extension of this Agreement, as provided herein, all other provisions of this Agreement shall remain in effect.

3.3 **Expiration.** Upon expiration of this Agreement, pursuant to a notice of intention not to extend in accordance with Section 3.1, the Executive's employment with the Employer shall cease, and this Agreement shall terminate without further obligations to the Executive, except as provided under Section 8.1.

## 4. **RESPONSIBILITIES AND OTHER ACTIVITIES.**

The Executive shall remain employed as the Chief Financial Officer of the Company Group as of the Effective Date. In such roles, the Executive shall continue to undertake the overall management, responsibilities, and duties related to these positions as defined by the Board of Directors of the Company, the Bank, or the member(s) of the Company Group, as applicable, and summarized in the target amounts presented job description attached hereto as Exhibit C. The Executive shall faithfully perform the duties of her positions as described herein; shall devote substantially all of her business time and energies to the business and affairs of the Company Group; and shall use her best efforts, skills, and abilities to promote the Company Group's interests. The Executive may not engage in any business activities or render any services of a business, commercial, or professional nature (whether or not for compensation) that would adversely affect the table below; however, the amount actually granted to a participant may vary from the target (e.g., +/-20%), as determined by the Committee, as necessary, to reflect BHB's Executive's performance business environment, affordability of her responsibilities and individual performance and contribution. Once the Committee determines the grant amounts, the awards will be allocated among TRS and PRSUs based on the LTEIP mix presented in the table below.

Participants	Total LTEIP Target (% of Salary)	LTEIP Mix (% of LTEIP Target)		
		TRS	PRSUS	
CEO/President	65%	38.5%	61.5%	
EVP CFO	40%	50%	50%	
All other members of SET	35%	50%	50%	

The ultimate value conflict with the business of the TRSs will reflect Company Group for the stock price appreciation between benefit of any person or entity, unless the date of grant and Executive receives the vesting date (e.g., April 23rd of 2023, 2024 and 2025).

On the other hand, the ultimate value of PRSUs will reflect the Company's future performance (i.e., 3-years) based on defined performance goals as well as stock price appreciation between the date of grant and the vesting date (e.g., April 23, 2025). The amount of PRSUs that vest can vary between 0% if goals not met or 50% and 150% prior written consent of the number Employer.

## 5. COMPENSATION.

5.1. **Base Compensation.** The Employer shall pay the Executive an annual base salary of PRSUs granted based Four Hundred Fifty-nine Thousand Dollars (\$459,000) ("Base Compensation"). The Base Compensation shall be paid in substantially equal installments in accordance with the Employer's compensation policies and procedures on whether threshold or stretch performance goals are met. Actual vesting amounts are interpolated between threshold and stretch and will vary from the number of shares granted in each year.

Award Agreements will be provided to each participant upon grant and will specify the terms and conditions of the grant.

### Performance Measures for PRSUs

The performance goal(s) are reviewed and approved payroll dates established by the Committee and targets and ranges are set consistent with business plans and expectations. Employer for its senior executive officers. The performance metrics for the PRSUs for the 2022-2024 performance cycle will be set forth in the applicable Award Agreements. For the 2022-2024 performance cycle, Relative Core Return on Assets ("Core ROA") and Relative Core Return on Equity ("Core ROE") (each, as defined in the applicable Award Agreements), split equally, have been selected as the performance measures considering BHB's strategic plan, growth strategy, as well as alignment with shareholder interests.

The performance measures will be assessed on a relative basis compared to companies in an index defined at the start of the performance period. Appendix A sets forth the Custom Industry Index of component banks for the 2022 - 2024 performance cycle. The Custom Industry Index includes exchange-traded banks and thrifts with Assets between \$1.9B and \$10B and headquarters in Northeast and Mid-Atlantic, excluding Puerto Rico. If any banks on the Custom Industry Index are de-registered or acquired as of the end of the performance period, they will be removed for the entire performance period and will not be replaced.

The table below reflects how the performance measures will be applied to the PRSUs for the 2022-2024 performance cycle. For this purpose, Core ROA and Core ROE measures will be calculated using percentile rank of 3-year average Core ROA and Core ROE.

Performance Measure	Wt.	Below Threshold	Threshold	Target	Stretch
3-year average Core ROA - relative to Custom Industry Index	50%	<25% percentile	25th percentile	50th percentile	75th percentile and above
3-year average Core ROE - relative to Custom Industry Index	50%	<25% percentile	25th percentile	50th percentile	75th percentile and above
Payout (% Grant Awarded)		0%	50%	100%	150%

2

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#### Appendix A – Custom Industry Index

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Company	Ticker
First Commonwealth Financial Corporation	FCF
S&T Bancorp, Inc.	STBA
Columbia Financial, Inc.	CLBK
Brookline Bancorp, Inc.	BRKL
ConnectOne Bancorp, Inc.	CNOB
Flushing Financial Corporation	FFIC
Tompkins Financial Corporation	TMP
Amalgamated Financial Corp.	AMAL
Kearny Financial Corp.	KRNY
Univest Financial Corporation	UVSP
The Bancorp, Inc.	TBBK
Metropolitan Bank Holding Corp.	MCB
TrustCo Bank Corp NY	TRST
Peapack-Gladstone Financial Corporation	PGC
Washington Trust Bancorp, Inc.	WASH
Financial Institutions, Inc.	FISI
Republic First Bancorp, Inc.	FRBK
Northfield Bancorp, Inc. (Staten Island, NY)	NFBK
Camden National Corporation	CAC
CNB Financial Corporation	CCNE
Cambridge Bancorp	CATC
Mid Penn Bancorp, Inc.	MPB
HarborOne Bancorp, Inc.	HONE
Enterprise Bancorp, Inc.	EBTC
The First of Long Island Corporation	FLIC
Arrow Financial Corporation	AROW
Hingham Institution for Savings	HIFS
Shore Bancshares, Inc.	SHBI
Peoples Financial Services Corp.	PFIS
BCB Bancorp, Inc.	BCBP
Orrstown Financial Services, Inc.	ORRF
ACNB Corporation	ACNB

First Bank	FRBA
Western New England Bancorp, Inc.	WNEB
The First Bancorp, Inc.	FNLC
Greene County Bancorp, Inc.	GCBC
Bankwell Financial Group, Inc.	BWFG
Chemung Financial Corporation	CHMG
Fidelity D & D Bancorp, Inc.	FDBC
Codorus Valley Bancorp, Inc.	CVLY
The Community Financial Corporation	TCFC
Citizens & Northern Corporation	CZNC

3

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Orange County Bancorp, Inc.	OBT
Evans Bancorp, Inc.	EVBN
Capital Bancorp, Inc.	CBNK
Norwood Financial Corp.	NWFL
Unity Bancorp, Inc.	UNTY
Parke Bancorp, Inc.	PKBK
PCSB Financial Corporation	PCSB
Pioneer Bancorp, Inc.	PBFS
Blue Foundry Bancorp	BLFY
Penns Woods Bancorp, Inc.	PWOD

4

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## Summary of Terms and Conditions

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### Effective Date

This LTEIP is effective January 1, 2022 to reflect a performance period of January 1, 2022 to December 31, 2024. The LTEIP will Base Compensation shall be reviewed annually by the Compensation Committee of the Company's Board of Directors and Executive Management to ensure proper alignment with BHB's business objectives. The Committee retains may be adjusted in the right to amend or modify Company's sole discretion, provided that the LTEIP. The established performance measurements are intended to remain constant for Base Compensation may not be adjusted downwards during the three-year performance period. This LTEIP will remain in effect until December 31, 2024 Term.

### 5.2. Other Compensation.

- 5.2.1 The Executive shall be a participant in the Company's Annual Incentive Plan, as may be amended from time to time in the Company's sole discretion.
- 5.2.2 The Executive shall be a participant in the Company's Long Term Incentive Plan, as may be amended from time to time in the Company's sole discretion.

5.2.3 The Executive shall be eligible to participate in any performance compensation plans agreed upon by the parties during the Term of this Agreement in concert with the Employer's evolving goals and objectives.

#### 6. Program Administration OTHER BENEFITS.

6.1 Benefits. The Executive shall be eligible to participate in such medical, dental, disability, retirement, life insurance, and other employee benefits on the same basis as may be provided to other similarly-situated employees of the Employer. As to all other benefits to which the Executive may be entitled in parity with all other employees, such benefits may be created, changed, or terminated from time to time in the Employer's sole discretion.

6.2 Paid Time Off. The LTEIP is authorized Executive shall be entitled to reasonable paid time off ("PTO"), which shall encompass and approved include vacations and sick leave, consistent with the Employer's current or established PTO policies.

6.3 Additional Benefits. The Employer further agrees to provide the Executive with use of a Company owned vehicle, in accordance with the policies of the Employer for its similarly situated executive employees (which amount and policies may be amended by the Committee, Employer from time to time), for all costs associated with the purchase or lease of a motor vehicle (including all lease, maintenance, insurance, gas and other charges or expenses). The Committee has Employer shall also pay the sole authority cost of all dues associated with the Executive's membership to interpret an area golf, yacht, or tennis club as well as the LTEIP cost of the reasonable travel expenses associated with the Executive's spouse's attendance at business conferences with the Executive, with the value of such benefits imputed to the Executive according to applicable tax requirements. Between the Effective Date and the first day of the month next following thirty (30) days from the Effective Date, the Employer shall also reimburse the Executive for her share of costs for continuation coverage pursuant to make or nullify any rules the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), if any.

6.4 Reimbursements. The Employer shall reimburse the Executive for all ordinary and procedures, as necessary for proper administration. Any determination business expenses described in Code Section 62(a)(2)(A) which are incurred by the Committee will be final and binding on all participants.

#### Program Changes or Discontinuance

BHB has developed the LTEIP based on existing business, market and economic conditions; current services; and staff assignments. If substantial changes occur that affect these conditions, BHB may add to, amend, modify or discontinue any of the terms or conditions of the LTEIP at any time.

#### New Hires, Promotions, and Transfers

An executive who is promoted or hired into the approved participant group generally will be eligible for a pro-rated award under the LTEIP (based on the years Executive in the performance period of her duties hereunder and which are subject to reimbursement in accordance with the new entrant participates Employer's expense reimbursement policy, as in effect from time to time; provided, however, that: (i) such expenses shall be reimbursed no later than the plan), including for end of the calendar year following the calendar year in which the expenses were incurred, with the expectation that such amounts shall be reimbursed by the end of the calendar month following the year in which he/she the expenses were incurred; (ii) the amount of such expenses eligible for reimbursement in one calendar year cannot affect the amount of such expenses eligible for reimbursement in another calendar year; and (iii) the right to reimbursement is hired not subject to liquidation or promoted, provided that his/her date of hire or promotion is on or exchange for another benefit.

#### 7. TERMINATION.

This Agreement may terminate prior to June 30th the expiration of such year (based on the months Term in accordance with this Section 7).

7.1 By the new entrant participates in Employer For Cause. The Employer may elect to terminate this Agreement and to terminate the current year plan).

#### Termination of Employment

To encourage employees to remain in the Executive's employment of BHB, a participant must be an active employee of BHB on the day the award is vests

If a participant is terminated by BHB, participation under the program is forfeited in its entirety.

If a participant voluntarily leaves BHB at any time for Cause. Such termination shall be effective immediately upon Notice of Termination to the

Executive. If the Employer terminates the Executive's employment for Cause during the performance period including the period before the award is vested, s/he will not be eligible for payment.

Participants who have willfully engaged in any activity, injurious to the BHB, will upon Executive, except as provided under Section 8.2.

**7.2 By the Employer Without Cause.** The Employer may elect to terminate this Agreement and to terminate the Executive's employment at any time by giving the Executive thirty (30) days' prior written notice of her termination of employment. The Executive's termination of employment shall occur on the date specified in such written notice. If the Employer terminates the Executive's employment without Cause during the Term, this Agreement shall terminate without further obligations to the Executive, except as provided under Sections 8.3 and 8.5.

**7.3 By the Executive without Good Reason.** The Executive may elect to terminate this Agreement and to voluntarily resign her employment at any time for any reason by giving the Employer not less than thirty (30) days' prior written notice of her termination of employment. The Executive's termination of employment shall occur on the date specified in such written notice, unless the Employer elects, in its sole discretion, to terminate the Executive's employment as of a date prior thereto. If the Executive terminates this Agreement pursuant to this Section 7.3 during the Term, this Agreement shall terminate without further obligations to the Executive, except as provided under Section 8.2.

**7.4 By the Executive for Good Reason.** The Executive may elect to terminate this Agreement and her employment for Good Reason. Before the Executive may terminate this Agreement for Good Reason, the Executive must provide the Employer with a Notice of Termination describing the existence of the condition or conditions giving rise to Good Reason no later than ninety (90) days after the date of the initial occurrence of such condition or conditions, and the Employer must have failed to remedy such condition or conditions within the thirty (30)-day period following such Notice of Termination. If the Executive terminates this Agreement for Good Reason during the Term, this Agreement shall terminate without further obligations to the Executive, except as provided under Sections 8.3 and 8.5.

**7.5 Death.** The Executive's employment shall terminate on account of the Executive's death. If the Executive's employment is terminated on account of the Executive's death during the Term, this Agreement shall terminate without further obligations to the Executive's estate or retirement, forfeit other legal representatives under this Agreement, except as provided under Section 8.4.

**7.6 Disability.** The Employer may elect to terminate this Agreement and to terminate the Executive's employment on account of the Executive's Disability. Such termination shall be effective immediately upon Notice of Termination to the Executive. If the Executive's employment is terminated on account of the Executive's Disability during the Term, this Agreement shall terminate without further obligations to the Executive, except as provided under Section 8.4.

## **8. PAYMENTS TO EXECUTIVE UPON TERMINATION.**

**8.1 Generally.** Regardless of the reason for any incentive award earned during a performance period in which termination of this Agreement and subject to this Section 8, the termination occurred. Executive (or the Executive's estate or other legal representatives if the Agreement terminates on account of the Executive's death) shall be entitled to receive (together, "Accrued Benefits"):

- 8.1.1 Payment of the Executive's earned but unpaid Base Compensation (including, without limitation, all items which constitute wages under applicable law) as of the effective date of the Executive's termination of employment, with such payment to be made in accordance with the Employer's compensation policies and procedures but in no event later than the date required by applicable law;
- 8.1.2 Payment of the Executive's earned but unused PTO as of the effective date of the Executive's termination of employment, with such payment to be made in accordance with the Employer's PTO policy; and
- 8.1.3 All rights and benefits (if any) to which the Executive is entitled due to her termination of employment as required, independent of this Agreement, by the terms of any employee benefit plans and programs of the Company or of the Bank in existence as of the date of the Executive's termination of employment, such as all Executive Annual Incentive Programs and the Long-Term Executive Incentive Plans or any other Company or Bank incentive plans, with such rights and benefits to be determined in accordance with the terms of such plans and programs then in place and as many be amended from time to time in the Company's sole discretion.

**8.2 Termination by the Employer for Cause or by the Executive without Good Reason.** If the Employer terminates the Executive's employment for Cause pursuant to Section 7.1 or the Executive terminates her employment without Good Reason pursuant to Section 7.3, the Executive shall be entitled to receive payment of her Accrued Benefits.

**8.3 Termination by the Employer without Cause or by the Executive for Good Reason.** If the Employer terminates the Executive's employment without Cause pursuant to Section 7.2 or the Executive terminates her employment for Good

The Committee reserves the right to make a decision on whether or not to pay a pro-rated share of any incentive earned for the performance period in question.

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#### **Disability, Death, Reason pursuant to Section 7.4, or Retirement**

If the event a participant terminates employment prior Employer fails to an award vesting because of death or Disability (as defined in renew this Agreement following the applicable Award Agreement), a pro-rated portion of initial Term, the shares underlying Executive shall be entitled, subject to Section 8.7, to receive:

- 8.3.1 Payment of her Accrued Benefits;
- 8.3.2 A lump sum payment equal to either (i) three (3) times the Executive's Base Compensation as of the effective date of the Executive's termination of employment in the event the Employer terminates the Executive's employment without Cause pursuant to Section 7.2 or the Executive terminates her employment for Good Reason pursuant to Section 7.4, or  
(ii) three (3) times the participant's award will become vested, Executive's Base Compensation as of the participant's effective date of the Executive's termination provided that of employment in the vesting event the Employer fails to renew this Agreement following the initial Term, with any such payment to be made as soon as reasonably practicable following the date as of which all requirements for payment have been satisfied (including, but not limited to, the execution and delivery of a Release, as described and defined in Section 8.7, and the passage of any PRSUs applicable revocation period); provided, however, that, if payable, payment shall be based on the target number of PRSUs awarded to the participant. In the event a participant terminates employment prior to an award vesting because of Retirement (as defined in the applicable Award Agreement), a pro-rated portion of the shares underlying any TRS award will become vested as of the participant's effective date of termination and a pro-rated

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portion of the shares underlying any PRSUs will become vested following made no later than the end of the performance "applicable 2 1/2 month period" (as that phrase is used for purposes of the short-term deferral exemption to Code Section 409A found in Treasury Regulation Section 1.409A-1(b)(4); and

- 8.3.3 A lump sum payment in an amount equal to the Employer's share of monthly premium contributions for medical, health, dental, and vision insurance benefits for the Executive and her eligible dependents, if any, for a period of thirty-six (36) months, calculated based upon the Employer's share of monthly premium contributions for such benefits as of the date of the Executive's termination of employment. Any taxable cash payments under this Section 8.3.3 are intended to be separation pay that is exempt from Code Section 409A by reason of the exemption for certain separation pay set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii).

If the Executive shall die prior to the receipt of all such payments under this Section 8.3, the remainder of such payments shall be paid to her surviving spouse or, if she has no surviving spouse, to her estate.

Notwithstanding the above, any amounts payable by reason of the Executive's termination of employment under this Agreement that are subject to Code Section 409A that would, but for this paragraph, be payable during the six (6) month period based following the Executive's termination of employment, shall not be paid during such six (6) month period, but shall be paid on the achievement first day of the relevant performance metrics (as seventh (7th) month following the Executive's termination of employment).

**8.4 Termination due to Death or Disability.** In the event of termination of this Agreement on account of the Executive's death or on account of the Executive's Disability pursuant to Section 7.6, the Executive or the Executive's estate or other legal representatives shall be entitled to receive payment of the Executive's Accrued Benefits.

**8.5 Termination in Connection with a Change in Control.** Notwithstanding the other provisions of this Section 8, in the event that (a) the Employer terminates the Executive's employment without Cause (excluding termination on account of death or Disability), or the Executive terminates her employment for Good

Reason; and (b) such termination of the Executive's employment occurs in anticipation of or within the twelve (12) month period after a Change in Control, then the Employer shall pay, subject to Section 8.7, the Executive the severance benefits described in this Section 8.5 in lieu of the applicable Award Agreement).

#### **Change benefits described in Section 8.3. The Executive's termination of Control**

In the event employment shall be deemed to be in anticipation of a Change in Control in which Awards are not assumed, converted or replaced, and subject for purposes of this Section 8.5 if it occurs within the six (6)-month period prior to continuous Service through the effective time occurrence of the Change in Control, time-based grants will vest.

In addition to any Accrued Benefits owed, the severance benefits described in this Section 8.5 shall include the following:

- 8.5.1 A lump sum payment equal to three (3) times the Executive's Base Compensation as of the effective date of the Executive's termination of employment plus three (3) times the Executive's target annual bonus for such year, with such payment to be made on the Employer's first or second regular payroll date following the date as of which all requirements for payment have been satisfied (including, but not limited to, the execution and delivery of a Release, as described and defined in Section 8.7, and the expiration of any applicable revocation period); provided, however, that, if payable, payment shall be made no later than the end of the "applicable 2 1/2 month period" (as that phrase is used for purposes of the short-term deferral exemption to Code Section 409A found in Treasury Regulation Section 1.409A-1(b)(4); and

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- 8.5.2 A lump sum payment in an amount equal to the Employer's share of monthly premium contributions for medical, health, dental, and vision insurance benefits for the Executive and her eligible dependents, if any, for a period of thirty-six (36) months, calculated based upon the Employer's share of monthly premium contributions for such benefits as of the date of the Executive's termination of employment. Any taxable cash payments under this Section 8.3.3 are intended to be separation pay that is exempt from Code Section 409A by reason of the exemption for certain separation pay set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii).

**8.6 No Mitigation.** The Executive shall not be required to mitigate the amount of any severance benefits described in this Section 8 by seeking other employment, other than as provided in Sections 8.3.3 and 8.5.2 hereof.

**8.7 Release.** Payment and provision of the benefits described in Sections 8.3.2, 8.3.3, 8.5.1, and 8.5.2 hereof (the "Severance Payments") are subject to and expressly conditioned upon the Executive's execution and delivery to the Employer of a separation agreement and general release in favor of the Employer in form and substance satisfactory to the Employer (the "Release"), within thirty (30) days after the Executive's termination of employment, which (after the expiration of any and all revocation periods and rights, if any) has, and not until it has, become fully effective and irrevocable, satisfactory to the Employer in the reasonable exercise of its discretion, releasing the Company, the Bank, their subsidiaries, their affiliates, and their directors, officers, employees, agents, insurers and certain others from any and all claims or potential claims arising from or related to the Executive's employment with the Employer or the termination of that employment. In no event shall any Severance Payments be due or payable unless and until such Release becomes effective and all statutory rights to rescind, revoke or terminate the same have expired unexercised. Payment and provision of the Severance Payments are also subject to and expressly conditioned upon the Executive's compliance with her obligations under Sections 10 and 11 of this Agreement. Anything in this Agreement to the contrary notwithstanding, in the event the Executive is determined by a court or arbitrator to have breached any of the provisions of Sections 10 or 11 of this Agreement, then the Employer shall have no further obligation to pay or provide the Severance Payments, and the Employer shall be entitled to obtain reimbursement from the Executive, and the Executive shall be obligated to reimburse the Company, for any Severance Payments previously paid to the Executive, in addition to any and all other rights or remedies available to the Employer under this Agreement or applicable law.

#### **9. CODE SECTIONS 280G AND 4999.**

Notwithstanding anything contained herein to the contrary, in the event it shall be determined that any payment or distribution made at 100% and Performance-based grants will vest at 100% any time by the Company, the Bank, or any corporation which is a member of Target, an "affiliated group" (as defined in Code Section 1504(a), without regard to Code Section 1504(b)) of which the Company or the Bank is a member, to or for the benefit of the Executive (whether paid or payable, or distributed or distributable, pursuant to the terms of this Agreement or otherwise) (a "Payment") would constitute an "excess parachute payment" (as defined in Code Section 280G(b)(2)), such Payment shall be reduced to the extent necessary to ensure that no portion of such Payment will be made as soon as administratively possible after non-deductible to the Change of Control event is finalized. A Change of Control event Employer by Code Section 280G or will be determined as defined in BHB's currently executed Executive Change in Control Severance Plan and employment contracts.

#### **Ethics and Interpretation**

If there is any ambiguity as subject to the meaning of any terms excise tax imposed by Code Section 4999 (the "Reduced Payment"), and the Executive shall have no further rights or provisions of this LTEIP or any questions as claims with respect to the correct interpretation of any information contained therein, BHB's interpretation expressed by the Board of Directors will be final and binding.

#### **Clawback**

In the event that BHB is required to prepare an accounting restatement due to error, omission, or fraud (as determined by the members amount in excess of the Board of Directors who are considered "independent" for purposes Reduced Payment. If a Payment is reduced pursuant to this Section 9, the Employer shall reduce or eliminate the following portions of the listing standards Payment in successive order to reach the Reduced Payment: (i) first, the benefits portion of the NYSE American each plan participant shall reimburse BHB for part or Payment, (ii) then, the entire incentive award made to such plan participant on the basis of having met or exceeded specific targets for the performance periods. For purposes cash portion of the LTEIP, Payment, and (iii) then, the term "incentive awards" means awards made equity portion of the Payment. Any determination required under the BHB's LTEIP, this Section 9 (including, without limitation, the amount of the Reduced Payment and the assumptions to be utilized in arriving at such determination) shall be made by the Employer and its tax advisors, whose determination shall be final, conclusive and binding upon the Executive.

#### **10. CONFIDENTIALITY.**

10.1 The Executive recognizes and acknowledges that certain assets of the Company, the Bank, and their affiliates or subsidiaries constitute Confidential Information.

10.2 The Executive shall not, without the prior written consent of the Company, the Bank, or any of their subsidiaries or affiliates, use or disclose, or negligently permit any unauthorized person to use, disclose, or gain access to, any Confidential Information.

10.3 Upon termination of employment, the Executive hereby agrees to deliver promptly to the Company, the Bank, or any of their subsidiaries or affiliates all memoranda, notes, records, manuals, or other documents, including all copies of such materials, containing Confidential Information, whether made or compiled by the Executive or furnished to her from any source by virtue of the Executive's relationship with the Company, the Bank, or any of their subsidiaries or affiliates.

10.4 Regardless of the reason for her cessation of employment, the Executive will furnish such information as may be in the

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Executive's possession and will cooperate with the Company, the Bank, or any of their subsidiaries or affiliates as may reasonably be requested in connection with any claims or legal actions in which is determined the Company, the Bank, or any of their subsidiaries or affiliates are or may become a party. The Employer will reimburse the Executive for any reasonable out-of-pocket expenses the Executive incurs in whole order to satisfy her obligations under this Section 10.4.

#### **11. NON-COMPETITION AND NON-SOLICITATION.**

11.1. In consideration of the covenants of the Employer contained herein, the Executive covenants and agrees with the Employer that, during the Noncompetition Restrictive Period and within a fifty (50) "air" mile radius from any location the Company, Bank, or any Subsidiary or affiliate maintains an office (the "Geographic Restricted Area") the Executive shall not, without specific written approval of the Employer, directly or indirectly, whether on behalf of or in part upon specific performance targets relating to conjunction with any entity or person, and whether for the financial results Executive's own benefit or account or for the benefit or account of BHB. BHB may seek to reclaim incentives within a three-year period any person or entity other than the Company, the Bank or any of their subsidiaries or affiliates:

11.1.1 Engage in any insurance, brokerage, trust, banking, or other financial services as an owner, employee, independent contractor, consultant, director, representative, agent, or in any other capacity;

11.2 In consideration of the incentive payout.

In addition, covenants of the altering, inflating, and/ Employer contained herein, the Executive covenants and agrees with the Employer that, during the Standard Restrictive Period and within the Geographic Restricted Area, the Executive shall not, without specific written approval of the Employer, directly or inappropriate manipulation indirectly, whether on behalf of performance/financial results or in conjunction with any entity or person, and whether for the Executive's own benefit or account or for the benefit or account of any person or entity other than the Company, the Bank or any of their subsidiaries or affiliates:

- 11.2.1 Directly or indirectly request, advise or otherwise cause any past, present, or future client or customer of the Company, the Bank, or any of their subsidiaries or affiliates to withdraw, curtail, or cancel his or her or its business with the Company, the Bank, or any of their subsidiaries or affiliates;
- 11.2.2 Directly or indirectly cause, suggest, or induce others to call on any past, present, or future client or customer of the Company, the Bank, or any of their subsidiaries or affiliates, for the purpose of (i) selling or providing to any such client or customer any products or services offered by (or that compete with the products or services offered by) the Company, the Bank, or any of their subsidiaries or affiliates, (ii) causing such client or customer to withdraw, curtail, or cancel his or her or its business with the Company, the Bank, or any of their subsidiaries or affiliates, or (iii) enticing, diverting, or taking away any such client or customer from the Company, the Bank, or any of their subsidiaries or affiliates; or
- 11.2.3 Canvas, solicit, or accept any business on behalf of any other bank, insurance agency, trust, or other financial services business, other than the Company, the Bank, or any of their subsidiaries or affiliates, from any past or present client or customer of the Company, the Bank, or any of their subsidiaries or affiliates.

11.3 During the Standard Restrictive Period, the Executive shall not, whether personally or in association with others, and whether on behalf of or in conjunction with any entity or person, directly or indirectly, by any means or device whatsoever, (a) solicit, aid in the solicitation of, induce, encourage, persuade or recruit, or attempt to solicit, induce, encourage, persuade or recruit, any person who is an employee, consultant, agent, or independent contractor of the Company, the Bank, or any of their subsidiaries or affiliates, to terminate or alter such employment, retention or engagement or to apply for or accept employment or retention with any other person or entity, (b) hire or employ or attempt to hire or employ, or solicit for employment or any other **infraction** engagement, or cause any other person, firm, corporation or other entity to hire or employ or attempt to hire or employ or solicit for employment or any other engagement, any person who is an employee, consultant, agent, or independent contractor of **recognized ethical** the Company, the Bank, or any of their subsidiaries or affiliates, or (c) solicit, encourage or induce any person or entity known by her to have a contractual relationship with the Company, the Bank, or any of their subsidiaries or affiliates to discontinue, terminate, cancel or refrain from entering into or expanding such contractual relationship.

11.4 **Other Agreements.** The Executive represents and warrants that neither the Executive's employment with the Employer nor the Executive's performance of her obligations hereunder will conflict with or violate the Executive's obligations under the terms of any agreement with a previous employer or other party, including agreements to refrain from competing, directly or indirectly, with the business standards, will subject of such previous employer or other party. Prior to the **employee** Effective Date hereof, the Executive has provided to disciplinary action up to the Employer copies of all restrictive covenants (e.g., non-solicitation and including termination of employment. In addition, any incentive compensation as provided by the LTEIP non-competition agreements) to which the employee would otherwise be entitled will be revoked even though an accounting reinstatement may not be required. she is a party in order to ensure her compliance with this Section 11.4.

## Miscellaneous

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### **12. REFORMATION AND INJUNCTIVE RELIEF.**

12.1 **Reformation.** All the parties hereto acknowledge that the parties have carefully considered the nature and scope of this Agreement. The **LTEIP** will not be deemed to give any participant the right activities, period, and area covered by Sections 10 and 11 are expressly acknowledged and agreed to be retained fair, reasonable, and necessary. To the extent that any covenant contained in the employ of BHB, nor will the **LTEIP** interfere with the right of BHB to discharge any participant at any time.

In the absence of an authorized, written employment contract, the relationship between employees **Sections 10** and **BHB** is one of at-will employment. The **LTEIP** does not alter the relationship.

This **LTEIP** and the transactions and payments hereunder shall, in all respect, be governed by, and construed and enforced in accordance with the laws of the State of Maine.

Each provision in this **LTEIP** is severable, and if any provision **11** is held to be invalid, illegal, or unenforceable the validity, legality and enforceability because of the remaining provisions extent of activities, duration of such covenant, the geographic area covered thereby, or otherwise, the parties agree that the court making such determination shall not reform such covenant to include as much of its nature and scope as will render it enforceable and, in its reduced form, said covenant shall be valid, legal, and enforceable to the fullest extent of the law.

12.2 **Injunctive Relief.** The Executive acknowledges and agrees that, upon any way, be affected or impaired thereby.

*The LTEIP is proprietary and confidential to BHB and its employees and should not be shared outside the organization except as authorized* **breach** *by the Committee for public disclosure documents.* Executive of her obligations under Sections 10 and 11 hereof, the Employer will have no adequate remedy at law, and accordingly will be entitled to specific performance and other appropriate injunctive and equitable relief via a court of law of competent jurisdiction, notwithstanding Section 13 hereof. Nothing herein shall be construed as prohibiting the Employer from pursuing any other remedies available to it, including the recovery of damages from the Executive.

### **13. MEDIATION AND ARBITRATION.**

**13.1 Generally.** If the Executive and the Employer have any dispute whatsoever relating to the interpretation, validity, or performance of this Agreement, or any other dispute arising out of this Agreement, every reasonable attempt will be made to resolve any differences or dispute within thirty (30) days of an issuance of written notice by either party to the other party. If a successful resolution of any differences or dispute has not been achieved to the satisfaction of both parties at the end of the thirty (30)-day period, the steps outlined in the following Sections 13.2, 13.3, and 13.4 shall apply.

**13.2 ADR.** Except as otherwise expressly provided hereunder, the parties agree that any and all disputes arising out of the Executive's employment, or cessation of employment, including but not limited to any dispute, controversy, or claim arising under any federal, state, or local statute, law, ordinance, or regulation or under this Agreement, shall be resolved exclusively by Alternative Dispute Resolution described in this Agreement ("ADR"). The initiation of ADR shall first require mediation, and the parties agree to first try to settle any dispute through mediation. Mediation shall be initiated by either party by the serving of a written notice of intent to mediate (a "Mediation Notice") by one party upon the other. If no resolution has been mutually agreed through mediation within ninety (90) days of service of a Mediation Notice, then and only then may the dispute be submitted to arbitration. Arbitration shall be initiated by the serving of a written notice of intent to arbitrate (an "Arbitration Notice") by one party upon the other.

**13.3 Mediation.** In the event that a party wishes to initiate ADR with respect to a claim, a Mediation Notice must be served on the other party within six (6) months from the date on which the claim arose. If the parties cannot mutually agree on a mediator, then a mediator shall be selected in accordance with the Employment Mediation Rules of the American Arbitration Association.

**13.4 Arbitration.** In the event that mediation is unsuccessful and arbitration is initiated, it shall be conducted under the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, as modified by this Agreement. There shall be a single arbitrator to be agreed upon by the parties; provided that, if the parties are unable to agree upon a single arbitrator, the Executive and the Employer shall each name an arbitrator, and the two (2) arbitrators so named shall name a third (3rd) arbitrator. The arbitration proceedings shall be heard by the arbitrator(s), and the decision of the arbitrator, or of a **conflict between** majority of the panel if one has been selected, shall be final and binding on the parties. The arbitration award shall be accompanied by a written statement containing a summary of the issues in controversy, a description of the award, and an explanation of the reasons for the award. Judgment upon the arbitration award may be entered in any court of competent jurisdiction. An Arbitration Notice must be served on the other party within one (1) year from the date on which the claim arose, and failure to bring such a claim within such one (1)-year period shall constitute a waiver of such claim and an absolute bar to any further proceedings in any forum with respect to it. All mediation and arbitration proceedings shall be conducted in Bangor, Maine, unless the parties otherwise agree in writing. All arbitration proceedings shall be confidential.

**13.5 Costs.** The cost of any mediation proceeding under this summary Section 13 will be paid entirely by the Employer. The cost of any arbitration proceeding shall be shared equally by the parties to the dispute; provided, however, that if the dispute is resolved in favor of the Executive, such cost shall be paid in full by the Employer. Each party shall be responsible for its own cost of representation and counsel.

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### **14. NOTICES.**

All notices, requests, demands, waivers, and other communications required or permitted to be given under this Agreement will be in writing and will be deemed to have been duly given: (a) if delivered personally or sent by facsimile or electronic mail, on the date received; (b) if delivered by overnight courier, on the day after mailing; and (c) if mailed, five days after mailing with postage prepaid. Any such notice will be sent as follows:

To the Employer:

Bar Harbor Bankshares  
ATTN: Human Resources Department  
82 Main Street  
P.O. Box 400  
Bar Harbor, ME 04609  
Fax: (207) 288-2811  
Email: adipaola@barharbor.bank

*With copies to:*

Stanley V. Ragalevsky, Esq.  
Mark D. Pomfret, Esq.  
K&L Gates LLP  
State Street Financial Center  
One Congress St., Suite 200  
Boston, MA 02114-2023  
Fax: (617) 261-3175  
Email: stan.ragalevsky@klgates.com  
mark.pomfret@klgates.com

To the Executive:

At the address on file with the Employer

**15. SUCCESSORS AND ASSIGNS.**

*15.1 The rights and obligations of the Executive hereunder are not assignable or delegable, and any such assignment or delegation will be null and void, provided, however, that in the event of her death any and all amounts due the Executive hereunder shall be paid to her surviving spouse, or if she has no surviving spouse, to her estate, including without limitation any amounts due the Executive under Section 8 hereof.*

*15.2 This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors, beneficiaries, heirs, and personal representatives.*

*15.3 The Employer shall require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Employer to expressly assume and agree to perform its obligations under this Agreement in the same manner and to the same extent that the Employer would be required to perform them if no such succession had taken place. Each such successor shall execute a written agreement evidencing its assumption of the Employer's obligations under this Agreement prior to the effective date of any such purchase, merger, consolidation, or other transaction.*

*15.4 The failure of the Employer to obtain from each successor the written agreement described in Section 15.3 shall be deemed to be a material breach of the obligations of the Employer under this Agreement, and shall entitle the Executive to incur a separation from service for Good Reason pursuant to Section 7.4.*

*15.5 As used in this Section 15, the Employer shall include the Company, the Bank, and any successor to all or substantially all of the business and/or assets of any of them (whether direct or indirect, by purchase, merger, consolidation, or otherwise) which executes and delivers the written agreement described in Section 15.3 or which otherwise becomes bound by all the terms and provisions of this Agreement.*

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**16. SURVIVAL.**

*Notwithstanding anything contained herein to the contrary, the provisions of this Agreement which by their terms are to be performed subsequent to termination, including, without limitation, Sections 8, 10, 11, 12, and 13 and this Section 16, shall survive the termination of this Agreement and shall remain fully enforceable.*

**17. NON-DUPLICATION.**

*In the event that the Executive shall perform services for the Company, the Bank, and/or any of their direct or indirect subsidiaries, any compensation or benefits provided to the Executive by such employer or pursuant to such employer's employee benefit plans shall be applied to offset the obligations of the*

Employer hereunder, it being intended that the provisions of this Agreement shall set forth the aggregate compensation and benefits payable to the Executive for all services rendered to the Company, the Bank, and any of their direct or indirect subsidiaries.

#### **18. CODE SECTION 409A.**

18.1. The Executive and the Employer acknowledge that each of the Plan payments and benefits promised to the Executive under this Agreement must either comply with the requirements of Code Section 409A and the regulations thereunder or qualify for an exception from compliance. To that end, the Executive and the Employer agree that:

- 18.1.1 The Executive will be deemed to have a date of termination of employment for purposes of determining the timing of any payments or benefits hereunder that are classified as deferred compensation only upon a "separation from service" within the meaning of Code Section 409A;
- 18.1.2 The expense reimbursements described in Section 6.5 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation Section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;
- 18.1.3 The payments described in Sections 8.1.1 and 8.1.2 are intended to be excepted from compliance with Code Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(3) as payment made pursuant to the Employer's customary payment timing arrangement;
- 18.1.4 The benefits and payments described in Section 8.1.3 are expected to comply with or be excepted from compliance with Code Section 409A on their own terms; and
- 18.1.5 The welfare benefits provided in kind under Section 8.5.2 are intended to be excepted from compliance with Code Section 409A as welfare benefits pursuant to Treasury Regulation Section 1.409A-1(a)(5) and/or as benefits not includable in gross income.

18.2. With respect to payments under this Agreement, for purposes of Code Section 409A, each severance payment (if there is more than one payment) will be considered one of a series of separate payments. The Executive and the Employer further agree that, to the extent not otherwise exempt, the termination benefits described in this agreement are intended to be exempt from Code Section 409A pursuant to which Treasury Regulation Section 1.409A-1(b)(4) as short-term deferrals or as payments pursuant to a separation pay plan pursuant to Treasury Regulation Section 1.409A-1(b)(9)(iii). In the awards case of a payment that is not excepted from compliance with Code Section 409A and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation Section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred to and paid on the later of the date sixty (60) days after the Executive's earliest separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)) and, if the Executive is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of her separation from service, the first day of the seventh month following the Executive's separation from service. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Code Section 409A.

#### **19. COMPLIANCE WITH FDI ACT.**

Notwithstanding anything contained herein to the contrary, any payments to the Executive by the Employer, whether pursuant to this Agreement or otherwise, are subject to and conditioned upon their compliance with Section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. §1828(k), and any regulations promulgated thereunder.

#### **20. GENERAL PROVISIONS.**

20.1. Entire Agreement. This Agreement and the attachments hereto constitute the entire understanding and agreement

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between the parties hereto with respect to the Employer's employment of the Executive, and supersedes and revokes any and all prior agreements and understandings, whether oral or written, between the parties relating to the subject matter of this Agreement.

20.2. Withholding. The Employer may withhold from any payments to be made hereunder such amounts as it may be granted, required or permitted to withhold under applicable federal, state, or other law, and transmit such withheld amounts, as appropriate, to the Award Agreements, appropriate taxing authorities.

20.3. Governing Law. This Agreement shall be interpreted under, subject to, and governed by the Plan substantive laws of the State of Maine, without giving effect to provisions thereof regarding conflict of laws.

20.4. Modification and Waiver. This Agreement may not be modified or amended, except by an instrument in writing signed by the Award Agreements, parties hereto. Notwithstanding the preceding sentence, this Agreement shall be construed and administered in such manner as applicable, shall be necessary to

effect compliance with Code Section 409A and shall be subject to amendment in the future, in such manner as the Employer, in consultation with the Executive, may deem necessary or appropriate to effect such compliance; provided, that any such amendment shall preserve for the Executive the benefit originally afforded pursuant to this Agreement. No term or condition of this Agreement shall be deemed to have been waived, except by written instrument of the party charged with such waiver. A waiver shall operate only as to the specific term or condition waived and will govern. not constitute a waiver of any other term or condition of this Agreement or as to any subsequent occurrence of the term or condition.

**20.5. Cooperation.** Each of the parties agrees to execute all further instruments and documents and to take all further action as the other party may reasonably request in order to effectuate the terms and purposes of this Agreement.

**20.6. Captions.** The captions appearing in this Agreement are for convenience of reference only and in no way define, limit, or affect the scope or substance of any section of this Agreement.

**20.7. Severability.** The invalidity or unenforceability of any provision of this Agreement shall not affect any other provision hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted. Furthermore, in lieu of such illegal, invalid, or unenforceable provision there shall automatically be added as a part of this Agreement a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable.

**20.8. Counterparts.** This Agreement may be executed in any number of counterparts with the same effect as if all Parties hereto had signed the same document. All counterparts shall be construed together and shall constitute one Agreement. This Agreement, to the extent signed and delivered by means of a facsimile machine or PDF, shall be treated in all manner and respects as an original signed agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person.

**21. ACKNOWLEDGEMENT.**

The Executive acknowledges that she was presented with this Agreement at least three days prior to executing the Agreement, has had a full and complete opportunity to review the terms, enforceability, and implications of this Agreement; that she has had a full and complete opportunity to present it to competent legal counsel for review; and that the Employer has not made any representations and warranties to the Executive concerning the terms, enforceability, and implications of this Agreement other than as reflected in this Agreement.

[THE NEXT PAGE IS THE SIGNATURE PAGE.]

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**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the date and year first written above.

Witness:

**BAR HARBOR BANKSHARES**

/s/ Witness

By: /s/ Curtis C. Simard

Name: Curtis C. Simard

Title: President & CEO

Witness:

**BAR HARBOR BANK & TRUST**

/s/ Witness

By: /s/ Curtis C. Simard

Name: Curtis C. Simard

Title: President & CEO

Witness:

**EXECUTIVE**

/s/ Witness

/s/ Josephine Iannelli

JOSEPHINE IANNELLI

## 2023 - 2025 Long Term Executive Incentive Program Guidelines

This document summarizes the elements and features of Bar Harbor Bankshares ("BHB") 2023-2025 Long Term Executive Incentive Program ("LTEIP"). Awards under the LTEIP are granted under the Bar Harbor Bankshares 2019 Equity Plan (the "Plan") and are subject to the terms and conditions of the Plan and any applicable Award Agreement entered into thereunder. Capitalized terms used but not defined herein shall have the meanings ascribed in the Plan.

Individually and collectively, BHB believes the executive team has the ability to influence and drive BHB's success. The LTEIP is designed to reward executives for driving BHB's success.

The objectives of the LTEIP are to:

- Align the interests of our executives with shareholder interests;
- Increase executive stock ownership/holdings;
- Ensure sound risk management by providing a balanced view of performance and aligning rewards with the time horizon of risk;
- Position BHB's total compensation to be competitive with market for meeting performance goals;
- Motivate and reward long-term sustained performance; and
- Enable BHB to attract and retain talent needed to drive BHB's success.

### Eligibility

- Eligibility to participate in the LTEIP is limited to named executive officers and selected Senior Executive Team ("SET"("SET") members nominated by the CEO and approved by the Compensation and Human Resources Committee of the Board of Directors (the "Committee" "Committee").
- Participants must be an active employee as of the vesting date to receive an award unless otherwise approved by the Committee.

### Program Components and Opportunity

Grants under the LTEIP will consist of a combination of time-vesting Restricted Stock and performance-vesting Restricted Stock Units.

- Time-vested Restricted Stock ("TRS"("TRS")) supports executive ownership and retention objectives. TRS grants will vest in equal installments over three years on April 23, 2024, April 23, 2025 and April 23, 2026 (e.g. 1/3 per year).
- Performance-vested Restricted Stock Units ("PRSUs"("PRSUs")) promote pay for performance since the awards only vest when predefined performance goals are met. PRSU grants will vest, if at all, after three year performance period ends, on April 23, 2026, if the performance measures established by the Committee are met.

In general, LTEIP awards will be granted for the participants in the target amounts presented in the table below; however, the amount actually granted to a participant may vary from the target (e.g., +/-20%), as determined by the Committee, as necessary, to reflect BHB's performance, business environment, affordability and individual performance and contribution. Once the Committee determines the grant amounts, the awards will be allocated among TRS and PRSUs based on the LTEIP mix presented in the table below.

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Participants	Total LTEIP Target (% of Salary)	LTEIP Mix (% of LTEIP Target)	
		TRS	PRSUs
CEO/President	65%	38.5%	61.5%
EVP CFO	40%	50%	50%
All other members of SET	35%	50%	50%

The ultimate value of the TRSs will reflect the stock price appreciation between the date of grant and the vesting date (e.g., April 23<sup>rd</sup> of 2024, 2025 and 2026).

On the other hand, the ultimate value of PRSUs will reflect the Company's future performance (i.e., 3-years) based on defined performance goals as well as stock price appreciation between the date of grant and the vesting date (e.g., April 23, 2026). The amount of PRSUs that vest can vary between 0% if goals not met or 50% and 150% of the number of PRSUs granted based on whether threshold or stretch performance goals are met. Actual vesting amounts are interpolated between threshold and stretch and will vary from the number of shares granted in each year.

Award Agreements will be provided to each participant upon grant and will specify the terms and conditions of the grant.

#### Performance Measures for PRSUs

The performance goal(s) are reviewed and approved by the Committee and targets and ranges are set consistent with business plans and expectations. The performance metrics for the PRSUs for the 2023-2025 performance cycle will be set forth in the applicable Award Agreements. For the 2023-2025 performance cycle, Relative Core Return on Assets ("Core ROA") and Relative Core Return on Equity ("Core ROE") (each, as defined in the applicable Award Agreements), split equally, have been selected as the performance measures considering BHB's strategic plan, growth strategy, as well as alignment with shareholder interests.

The performance measures will be assessed on a relative basis compared to companies in an index defined at the start of the performance period. Appendix A sets forth the Custom Industry Index of component banks for the 2023 - 2025 performance cycle. The Custom Industry Index includes exchange-traded banks and thrifts with Assets between \$1.9B and \$10B and headquarters in Northeast and Mid-Atlantic, excluding Puerto Rico. If any banks on the Custom Industry Index are de-registered or acquired as of the end of the performance period, they will be removed for the entire performance period and will not be replaced.

The table below reflects how the performance measures will be applied to the PRSUs for the 2023-2025 performance cycle. For this purpose, Core ROA and Core ROE measures will be calculated using percentile rank of 3-year average Core ROA and Core ROE.

Performance Measure	Wt.	Below Threshold	Threshold	Target	Stretch
3-year average Core ROA - relative to Custom Industry Index	50%	<25% percentile	25 <sup>th</sup> percentile	50 <sup>th</sup> percentile	75 <sup>th</sup> percentile and above
3-year average Core ROE - relative to Custom Industry Index	50%	<25% percentile	25 <sup>th</sup> percentile	50 <sup>th</sup> percentile	75 <sup>th</sup> percentile and above
Payout (% Grant Awarded)		0%	50%	100%	150%

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#### Appendix A – Custom Industry Index

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First Commonwealth Financial Corporation	FCF
ConnectOne Bancorp, Inc.	CNOB

Brookline Bancorp, Inc.	BRKL
S&T Bancorp, Inc.	STBA
Flushing Financial Corporation	FFIC
Kearny Financial Corp.	KRNY
The Bancorp, Inc.	TBBK
Amalgamated Financial Corp.	AMAL
Tompkins Financial Corporation	TMP
Univest Financial Corporation	UVSP
Washington Trust Bancorp, Inc.	WASH
Peapack-Gladstone Financial Corporation	PGC
Metropolitan Bank Holding Corp.	MCB
TrustCo Bank Corp NY	TRST
Republic First Bancorp, Inc.	FRBK
Financial Institutions, Inc.	FISI
Camden National Corporation	CAC
Northfield Bancorp, Inc. (Staten Island, NY)	NFBK
Cambridge Bancorp	CATC
CNB Financial Corporation	CCNE
HarborOne Bancorp, Inc.	HONE
Mid Penn Bancorp, Inc.	MPB
Enterprise Bancorp, Inc.	EBTC
The First of Long Island Corporation	FLIC
Hingham Institution for Savings	HIFS
Arrow Financial Corporation	AROW
Peoples Financial Services Corp.	PFIS
BCB Bancorp, Inc.	BCBP
Shore Bancshares, Inc.	SHBI
Bankwell Financial Group, Inc.	BWFG
Orrstown Financial Services, Inc.	ORRF
Northeast Bank	NBN
The First Bancorp, Inc.	FNLC
First Bank	FRBA
Chemung Financial Corporation	CHMG
Greene County Bancorp, Inc.	GCBC
Western New England Bancorp, Inc.	WNEB
ACNB Corporation	ACNB
Citizens & Northern Corporation	CZNC
Unity Bancorp, Inc.	UNTY
The Community Financial Corporation	TCFC
Fidelity D & D Bancorp, Inc.	FDBC
Citizens Financial Services, Inc.	CZFS

Ponce Financial Group, Inc.	PDLB
Orange County Bancorp, Inc.	OBT
Codorus Valley Bancorp, Inc.	CVLY
Evans Bancorp, Inc.	EVBN

Capital Bancorp, Inc.	CBNK
Meridian Corporation	MRBK
Norwood Financial Corp.	NWFL
Blue Foundry Bancorp	BLFY

## **Summary of Terms and Conditions**

### **Effective Date**

This LTEIP is effective January 1, 2023 to reflect a performance period of January 1, 2023 to December 31, 2025. The LTEIP will be reviewed annually by the Committee and Executive Management to ensure proper alignment with BHB's business objectives. The Committee retains the right to amend or modify the LTEIP. The established performance measurements are intended to remain constant for the three-year performance period. This LTEIP will remain in effect until December 31, 2025.

### **Program Administration**

The LTEIP is authorized and approved by the Committee. The Committee has the sole authority to interpret the LTEIP and to make or nullify any rules and procedures, as necessary, for proper administration. Any determination by the Committee will be final and binding on all participants.

### **Program Changes or Discontinuance**

BHB has developed the LTEIP based on existing business, market and economic conditions; current services; and staff assignments. If substantial changes occur that affect these conditions, BHB may add to, amend, modify or discontinue any of the terms or conditions of the LTEIP at any time.

### **New Hires, Promotions, and Transfers**

An executive who is promoted or hired into the approved participant group generally will be eligible for a pro-rated award under the LTEIP (based on the years in the performance period the new entrant participates in the plan), including for the year in which he/she is hired or promoted, provided that his/her date of hire or promotion is on or prior to June 30th of such year (based on the months the new entrant participates in the current year plan).

### **Termination of Employment**

To encourage employees to remain in the employment of BHB, a participant must be an active employee of BHB on the day the award is vested

If a participant is terminated by BHB, participation under the program is forfeited in its entirety.

If a participant voluntarily leaves BHB at any time during the performance period including the period before the award is vested, s/he will not be eligible for payment.

Participants who have willfully engaged in any activity, injurious to the BHB, will upon termination of employment, death, or retirement, forfeit any incentive award earned during a performance period in which the termination occurred.

The Committee reserves the right to make a decision on whether or not to pay a pro-rated share of any incentive earned for the performance period in question.

### **Disability, Death, or Retirement**

In the event a participant terminates employment prior to an award vesting because of death or Disability (as defined in the applicable Award Agreement), a pro-rated portion of the shares underlying the participant's award will become vested, as of the participant's effective date of termination, provided that the vesting of any PRSUs shall be based on the target number of PRSUs awarded to the participant. In the event a participant terminates employment prior to an award vesting because of Retirement (as defined in the applicable Award Agreement), a pro-rated portion of the shares underlying any TRS award will become vested as of the participant's effective date of termination and a pro-rated

portion of the shares underlying any PRSUs will become vested following the end of the performance period based on the achievement of the relevant performance metrics (as described in the applicable Award Agreement).

### **Change of Control**

In the event of a Change in Control in which Awards are not assumed, converted or replaced, and subject to continuous Service through the effective time of the Change in Control, time-based grants will vest at 100% and Performance-based grants will vest at 100% of Target. Payment will be made as soon as administratively possible after the Change of Control event is finalized. A Change of Control event will be determined as defined in BHB's currently executed Executive Change in Control Severance Plan and employment contracts.

### **Ethics and Interpretation**

If there is any ambiguity as to the meaning of any terms or provisions of this LTEIP or any questions as to the correct interpretation of any information contained therein, BHB's interpretation expressed by the Board of Directors will be final and binding.

### **Clawback**

In the event that BHB is required to prepare an accounting restatement due to error, omission, or fraud (as determined by the members of the Board of Directors who are considered "independent" for purposes of the listing standards of the NYSE American each plan participant shall reimburse BHB for part or the entire incentive award made to such plan participant on the basis of having met or exceeded specific targets for the performance periods. For purposes of the LTEIP, the term "incentive awards" means awards made under the BHB's LTEIP, the amount of which is determined in whole or in part upon specific performance targets relating to the financial results of BHB. BHB may seek to reclaim incentives within a three-year period of the incentive payout.

In addition, the altering, inflating, and/or inappropriate manipulation of performance/financial results or any other infraction of recognized ethical business standards, will subject the employee to disciplinary action up to and including termination of employment. In addition, any incentive compensation as provided by the LTEIP to which the employee would otherwise be entitled will be revoked even though an accounting reinstatement may not be required.

### **Miscellaneous**

The LTEIP will not be deemed to give any participant the right to be retained in the employ of BHB, nor will the LTEIP interfere with the right of BHB to discharge any participant at any time.

In the absence of an authorized, written employment contract, the relationship between employees and BHB is one of at-will employment. The LTEIP does not alter the relationship.

This LTEIP and the transactions and payments hereunder shall, in all respect, be governed by, and construed and enforced in accordance with the laws of the State of Maine.

Each provision in this LTEIP is severable, and if any provision is held to be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions shall not, in any way, be affected or impaired thereby.

The LTEIP is proprietary and confidential to BHB and its employees and should not be shared outside the organization except as authorized by the Committee for public disclosure documents.

In the event of a conflict between this summary and the terms of the Plan pursuant to which the awards may be granted, or the Award Agreements, the Plan or the Award Agreements, as applicable, will govern.

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Exhibit 10.14

**BAR HARBOR BANKSHARES 2019 EQUITY PLAN**  
**RESTRICTED STOCK AND**  
**PERFORMANCE-BASED RESTRICTED STOCK UNIT**  
**AGREEMENT**  
**COVER SHEET**

Bar Harbor Bankshares 2019 Equity Plan (collectively, the "**Company**") hereby grants Restricted Stock and Performance-Based Restricted Stock Units (together, the "**Incentive Awards**") relating to shares of its common stock, par value \$2.00 per share (the "**Stock**"), to the individual named below as the Participant, subject to the terms and conditions set forth in this cover sheet and in the attachment (together, the "**Agreement**") and in the Bar Harbor Bankshares 2019 Equity Plan (as amended from time to time, the "**Plan**").

**Grant Date:** \_\_\_\_\_

**Name of Participant:** \_\_\_\_\_

**Number of Shares of Time Restricted Stock Covered by Award:** \_\_\_\_\_

**Purchase Price per Share of Time Restricted Stock:** \$ \_\_\_\_\_

**Vesting Schedule for Shares of Restricted Stock:** 3 year graded (1/3 per year) \_\_\_\_\_

**Target Number of Performance-Based Restricted Stock Units Subject to Award:** \_\_\_\_\_

**Maximum Number of Performance-Based Restricted Stock Units Subject to Award:** \_\_\_\_\_

**Performance Period for Performance-Based Restricted Stock Units:** \_\_\_\_\_

**Vesting Schedule for Shares of Performance Based Restricted Stock Units:** 3 year cliff vest \_\_\_\_\_

**By your signature below, you agree to all of the terms and conditions described in the attached Agreement and in the Plan, a copy of which has been made available to you. You acknowledge that you have carefully reviewed the Plan and agree that the Plan will control in the event any provision of this Agreement should appear to be inconsistent.**

Grantee: \_\_\_\_\_ Date: \_\_\_\_\_  
(Signature)

Company: \_\_\_\_\_ Date: \_\_\_\_\_  
(Signature)

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Attachment

*This is not a stock certificate or a negotiable instrument.*

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**BAR HARBOR BANKSHARES 2019 EQUITY PLAN  
RESTRICTED STOCK AND  
PERFORMANCE-BASED RESTRICTED STOCK UNIT  
AGREEMENT**

**Restricted Stock and Performance-Based Restricted Stock Units** This Agreement consists of an Award of shares of Restricted Stock in the number set forth on the cover sheet and subject to the terms and conditions set forth in the Agreement, in the Plan, and on the cover sheet (the “**Restricted Stock**”), and an Award of Performance-Based Restricted Stock Units, in the number set forth on the cover sheet and subject to the terms and conditions set forth in the Agreement, in the Plan, and on the cover sheet (the “**Performance Units**”). The Restricted Stock and the Performance Units are referred to together as the “**Incentive Awards**.”

**Number and Vesting of Restricted Stock** Your Restricted Stock (and any corresponding Dividend Equivalents (as defined below)) will vest as set forth in the Vesting Schedule on the cover sheet, subject to your continuous Service through the applicable vesting date(s), except as provided in this Agreement; provided, however, that for purposes of vesting, fractional number of shares of Restricted Stock shall be rounded down to the nearest whole number. You cannot vest in more than the number of shares of Restricted Stock covered by this Award. No additional shares of Restricted Stock will vest after your Separation from Service for any reason, except as provided below.

**Number and Vesting of Performance Units** The Performance Units are subject to the achievement of the performance goals described in Exhibit A to this Agreement. Following the end of the Performance Period set forth on the cover sheet, the Committee will determine the level of achievement of the performance goals and will determine the number of Performance Units (and any corresponding Dividend Equivalents (as defined below)) you will actually be entitled to receive based on such achievement, in accordance with Exhibit A (which may be equal to all or a portion, including none, of the Maximum Number of Performance-Based Restricted Stock Units set forth on the cover sheet).

The Performance Units (and any corresponding Dividend Equivalents (as defined below)) will be subject to forfeiture if your continuous Service terminates prior to vesting, except as otherwise provided in this Agreement.

3

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**Delivery of Stock Pursuant to Vested Incentive Awards** Your vested Incentive Awards (including your vested Restricted Stock and Performance Units) will not be settled in cash. Shares of Stock underlying the vested Incentive Awards will be delivered to you (and any corresponding Dividend Equivalents (as defined below) will be paid to you in cash) by the Company as soon as practicable following the applicable vesting date, but in no event later than March 15<sup>th</sup> of the calendar year following the applicable vesting date.

**Evidence of Issuance** The Company will issue your Incentive Awards in the name set forth on the cover sheet.

The issuance of the shares of Stock under the grant of Incentive Awards evidenced by this Agreement shall be evidenced through use of uncertificated electronic Shares recorded in the books of the Company (i.e. "book-entry" form).

**Transferability** The Incentive Awards may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered, whether by operation of law or otherwise, nor may the Incentive Awards be made subject to execution, attachment, or similar process, other than by will or the laws of descent and distribution, and, during the lifetime of the Grantee, only the Grantee personally (or the Grantee's personal representative) may exercise rights under the Plan. If you attempt to do any of these things, you will immediately and automatically forfeit your Incentive Awards.

**Vesting and Delivery upon Termination of Service - Restricted Stock**

*Death/Disability/Retirement.* If your continuous Service terminates prior to vesting of your Restricted Stock because of your death, or Disability or Retirement (each, as defined below), a pro-rated portion of the unvested shares underlying your Restricted Stock shall vest on the effective date of your termination based on the number of whole months that you were employed by the Company since the Grant Date divided by 36 months. Shares underlying the Restricted Stock will be delivered on the delivery date specified under the "Delivery of Stock Pursuant to Vested Incentive Awards" heading above.

*Other Separation from Service.* If you incur a Separation from Service for any reason other than those specified above, whether voluntary or involuntary and prior to a Change in Control, you will forfeit all rights to the shares of Restricted Stock (and any corresponding Dividend Equivalents (as defined below)) that have not yet vested or

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with respect to which all applicable restrictions and conditions have not lapsed.

**Vesting and Delivery upon Termination of Service - Performance Units**

*Death/Disability.* If your continuous Service terminates prior to the vesting of your Performance Units because of your death or Disability (as defined below), the Target Number of Performance Units will vest on a pro rata basis as of the effective date of your termination based on the number of whole months that you were employed by the Company since the Grant Date divided by 36 months. Shares underlying the Performance Units will be delivered on the delivery date specified under the "Delivery of Stock Pursuant to Vested Incentive Awards" heading above.

*Retirement.* If your continuous Service terminates prior to the vesting of your Performance Units because of your Retirement (as defined below), the Performance Units will vest on a pro rata basis based on the number of whole months that you were employed by the Company since the Grant Date divided by 36 months following the end of the Performance Period as specified under the "Number and Vesting of Performance Units" heading above. Shares underlying the Performance Units will be delivered on the delivery date specified under the "Delivery of Stock Pursuant to Vested Incentive Awards" heading above.

*Other Separation from Service.* If you incur a Separation from Service for any reason other than those specified above, whether voluntary or involuntary and prior to a Change in Control, you will forfeit all rights to the Performance Units (and any corresponding Dividend Equivalents (as defined below)) that have not yet vested or with respect to which all applicable restrictions and conditions have not lapsed.

**Definition of Disability and Retirement**

For purposes of this Agreement, "**Disability**" means a condition entitling you to receive benefits under the long-term disability plan of the Company (or an Affiliate) in which you are eligible to participate, or, in the absence of such a plan, that you are unable to perform the essential duties of your position by reason of a medically determinable physical or mental impairment that is potentially permanent in character or that can be expected to last for a continuous period of not less than twelve (12) months. Any determination of whether Disability exists shall be made by the Committee in its sole and absolute discretion.

For purposes of this Agreement, "**Retirement**" means age 65 or age 60 and ten years of service, provided that you provide written notice to the Committee at least six (6)

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months prior to the date of your retirement seeking confirmation, and the Committee confirms, that your retirement meets such definition.

**Leaves of Absence**

For purposes of this Agreement, you will not be considered to have a Separation from Service when you go on a bona fide leave of absence that was approved by the Company in writing if the terms of the leave provide for continued service crediting, or when continued service crediting is required by applicable law. You will be considered to have a Separation from Service when the approved leave ends unless you immediately return to work as an active employee.

The Committee determines, in its sole discretion, which leaves count for this purpose, and when a termination of Service will be considered a Separation from Service for all purposes under the Plan.

**Change in Control**

In the event of a Change in Control in which Awards are not assumed, converted or replaced, and subject to your continuous Service through the effective time of the Change in Control, the unvested shares underlying your Awards shall vest in accordance with Section 16 of the Plan. Shares of Stock underlying the vested Restricted Stock will be delivered immediately prior to the effective time of the Change in Control.

In accordance with Section 16 of the Plan, to the extent your Awards are assumed, converted or replaced by the resulting entity in a Change in Control, if, within one year after the date of the Change in Control, you have a Separation from Service either by the Company other than for Cause or by you for Good Reason (each, as defined below), all restrictions with respect to your Restricted Stock shall lapse and your Restricted Stock become vested and non-forfeitable, and a number of shares of Stock underlying your Performance Units shall be deemed to have been fully earned and vested as of your Separation from Service based upon the greater of (i) an assumed achievement of all relevant performance goals at the "target" level, or (ii) the actual level of achievement of all relevant performance goals against target as of the Company's fiscal quarter end preceding the Change in Control.

For purposes of this Agreement, "**Good Reason**" means the occurrence of one of the following without the Participant's consent (i) a material reduction in the Participant's base salary other than a general reduction that affects all similarly situated executives in substantially the same

proportions; (ii) a material reduction in the Participant's target annual bonus opportunity; (iii) a material diminution in the budget over which the Participant retains authority; (iv) a relocation of the Participant's principal place of employment by more than one hundred (100) miles; (v) the failure to obtain an agreement from any successor to assume and agree to perform the obligations under this Agreement in the same manner and to the same extent that the Company or any of its successor would have been required to perform, except where such assumption occurs by operation of law; (vi) a material diminution or adverse change in the Participant's authority, duties or responsibilities (other than temporarily while the Participant is physically or mentally incapacitated or as required by applicable law); or (vii) any other action or inaction that constitutes a material breach by the Company of this Agreement or any other agreement under which the Participant provides services to the Company or the Company provides compensation or benefits to the Participant.

For purposes of this Agreement, "**Cause**" means with respect to a Participant, (i) the Participant's conviction by a court of competent jurisdiction of a felony involving dishonesty or fraud on the part of the Participant in violation of applicable law in his/her relationship with the Company or any of its Affiliate or willful misconduct by the Participant which is materially injurious to the Company or any of its Affiliates, monetarily; (ii) any failure by the Participant substantially to perform any reasonable directions of the Board or the Participant's supervisor (other than failure resulting from Disability or death) in relation to a matter of material importance to the Company or any of its Affiliates and that comply with applicable laws and regulations and that are consistent with Participant's duties and responsibilities to the Company or any of its Affiliates, within thirty (30) days after delivery to the Participant by the Board or supervisor of a written demand for substantial performance, which written demand shall specifically identify the manner in which the Board or supervisor believes that the Participant has not substantially performed; or (iii) the Participant intentionally provides materially false or misleading information to, or otherwise misleads in any material respect, the Board, any committee thereof, or any supervisor of the Participant.

#### Withholding Taxes

You agree as a condition of these Awards that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the receipt of, vesting of, or otherwise with respect to the Incentive

Awards. In the event that the Company determines that any federal, state, or local tax or withholding payment is required relating to the Incentive Awards, in addition to the Company's right to withhold any compensation paid to you by the Company, you may also satisfy the withholding obligations by (i) tendering a cash payment or (ii) delivering owned and unencumbered shares of Stock to the Company.

**Section 83(b)****Election**

Under Section 83 of the Code, the difference between the purchase price paid for the shares of Restricted Stock and their Fair Market Value on the date any forfeiture restrictions applicable to such shares lapse will be reportable as ordinary income at that time. For this purpose, "forfeiture restrictions" include the forfeiture as to unvested Restricted Stock described herein. You may elect to be taxed at the time the shares of Restricted Stock are acquired, rather than when such shares cease to be subject to such forfeiture restrictions, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days after the Grant Date. You will have to make a tax payment to the extent the purchase price is less than the Fair Market Value of the shares on the Grant Date. No tax payment will have to be made to the extent the purchase price is at least equal to the Fair Market Value of the shares on the Grant Date. The form for making this election is attached as [Exhibit B](#) hereto. Failure to make this filing within the thirty (30)-day period will result in the recognition of ordinary income by you (in the event the Fair Market Value of the shares as of the vesting date exceeds the purchase price) as the forfeiture restrictions lapse.

**YOU ACKNOWLEDGE THAT IT IS YOUR SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER CODE SECTION 83(b), EVEN IF YOU REQUEST THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON YOUR BEHALF. YOU ARE RELYING SOLELY ON YOUR OWN ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE ANY CODE SECTION 83(b) ELECTION.**

**Retention Rights**

Neither your Incentive Awards nor this Agreement gives you the right to be retained or employed by the Company (or any of its Affiliates) in any capacity. The Company (and any Affiliate) reserves the right to terminate your continuous Service with or without notice and with or without cause.

**Stockholder Rights**

You have no rights as a stockholder with respect to the shares of Stock underlying the Incentive Awards unless and until either a certificate evidencing your Stock has been issued or an appropriate entry has been made on the Company's books and no adjustments are made for dividends, distributions, or other rights if the applicable record date occurs before your certificate is issued (or an appropriate book entry is made), except as described herein or in the Plan. Notwithstanding the foregoing, you shall have the right to vote any shares underlying Restricted Stock and to receive Dividend Equivalents (as defined below) on the shares of Stock underlying your Incentive Awards.

**Dividend Equivalents**

As of any date that the Company pays any cash dividend on shares of its Stock following the Grant Date, the Company shall credit your account with a dollar amount equal to the cash dividend paid on one share of Stock multiplied by the number of shares of Stock underlying your Incentive Awards ("**Dividend Equivalents**"). Any Dividend Equivalents credited pursuant to the foregoing provisions shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Incentive Awards to which they relate, and no Dividend Equivalents will vest or be paid unless and until the corresponding Incentive Award vests and is settled; provided, however, that the amount of the Dividend Equivalents shall be paid in cash.

<b>Adjustments</b>	In the event of a stock split, stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares, or a similar change in the Stock, the number of shares covered by the Incentive Awards will be adjusted by the Committee (and rounded down to the nearest whole number) in accordance with the terms of the Plan. The Committee's determinations with respect to any such adjustments will be final, binding, and conclusive.
<b>Corporate Activity</b>	Your Incentive Awards shall be subject to the terms of any applicable agreement of merger, liquidation, or reorganization in the event the Company is subject to such corporate activity, consistent with Section 14 of the Plan.
<b>Forfeiture of Rights</b>	If you should take actions in violation or breach of, or in conflict with, any non-competition agreement, any agreement prohibiting solicitation of employees or clients of the Company or any Affiliate, any confidentiality obligation with respect to the Company or any Affiliate, otherwise in competition with the Company or any

Affiliate, any material Company or Affiliate policy or procedure, any other agreement, or any other obligation to the Company or any Affiliate, the Company has the right to cause an immediate forfeiture of your rights to the Incentive Awards (and any corresponding Dividend Equivalents), and the Incentive Awards shall immediately and automatically expire.

In addition, if you have been issued shares of Stock in settlement of any portion of the Incentive Awards during the two (2)-year period prior to your actions, you will owe the Company a cash payment (or forfeiture of shares of Stock) in an amount determined as follows: (i) for any shares of Stock that you have sold prior to receiving notice from the Company, the amount will be the proceeds received from the sale(s), and (ii) for any shares of Stock that you still own, the amount will be the number of shares of Stock owned times the Fair Market Value of the shares of Stock on the date you receive notice from the Company (provided, that the Company may require you to satisfy your payment obligations hereunder either by forfeiting and returning to the Company the shares or any other shares of Stock or making a cash payment or a combination of these methods as determined by the Company in its sole discretion).

**Clawback**

The Incentive Awards are subject to mandatory repayment by you to the Company to the extent you are or in the future become subject to (i) any Company "clawback" or recoupment policy or (ii) any law, rule, or regulation that requires the repayment by you to the Company of compensation paid by the Company to you in the event that you fail to comply with, or violate, the terms or requirements of such policy or law, rule, or regulation.

If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws and you knowingly engaged in the misconduct, were grossly negligent in engaging in the misconduct, knowingly failed to prevent the misconduct, or were grossly negligent in failing to prevent the misconduct, you will reimburse the Company the amount of any payment in settlement of the Incentive Awards earned or accrued during the twelve (12)-month period following the first public issuance or filing with the Securities and Exchange Commission (whichever first occurred) of the financial document that contained such material noncompliance.

**Applicable Law**

The laws of the State of Maine will govern all questions concerning the construction, validity, and interpretation of this Agreement, without regard to any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

**The Plan**

The text of the Plan as it may be amended from time to time is incorporated herein by reference. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this grant of Incentive Awards, with the exception, if applicable, of the Company's Stock Ownership Guidelines. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail. Any prior agreements, commitments, or negotiations concerning this grant are superseded.

***Certain capitalized terms used in this Agreement are defined in the Plan and have the meaning set forth in the Plan.***

**Amendment**

This Agreement may be amended at any time by the Board, provided that no amendment may materially impair your rights with respect to the Incentive Awards without your consent.

**Data Privacy**

To administer the Plan, the Company may process personal data about you. Such data includes, but is not limited to the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about you such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan. By accepting the Incentive Awards, you give explicit consent to the Company and its Affiliates to process any such personal data.

**Consent to Electronic Delivery** By accepting the Incentive Awards, you consent to receive documents related to the Incentive Awards by electronic delivery and, if requested, agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company, and your consent shall remain in effect throughout your term of continuous Service and thereafter until you withdraw such consent in writing to the Company.

11

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**Code Section 409A** The Incentive Awards are intended to comply with Code Section 409A ("Section 409A"). To the extent required to avoid accelerated taxation and tax penalties under Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided during the six (6)-month period immediately following your separation from service (within the meaning of Section 409A) will instead be paid on the first payroll date after the six (6)-month anniversary of your separation from service (or death, if earlier). For purposes of the Incentive Awards, a termination of continuous Service only occurs upon an event that would be a Separation from Service within the meaning of Section 409A.

Neither the Company, any Affiliate, the Board, nor the Committee will have any obligation to take any action to prevent the assessment of any excise tax or penalty on you under Section 409A, and neither the Company, any Affiliate, the Board, nor the Committee will have any liability to you or other person for such tax or penalty.

*By acknowledging this Agreement with your signature, you agree to all of the terms and conditions described in this Agreement and in the Plan.*

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Grantee Signature

Date

12

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**BAR HARBOR BANKSHARES 2019 EQUITY PLAN**

**RESTRICTED STOCK AND  
PERFORMANCE-BASED RESTRICTED STOCK UNIT  
AGREEMENT**

**EXHIBIT A**

## VESTING OF PERFORMANCE UNITS

The Performance Units are subject to the performance-based vesting requirements set forth below.

### **Performance-Based Vesting Requirements:**

Vesting of the Performance Units are determined based on the achievement of two equally weighted performance factors, Relative Core Return on Assets ("Relative Core ROA") and Relative Core Return on Equity ("Relative Core ROE") (each as defined below). The Company must meet or exceed the applicable threshold performance goal listed below for any portion of the Performance Units to be earned, and the Participant must be continuously employed by the Company until the vesting date unless otherwise provided in the Award Agreement.

The applicable number of the Performance Units that will become vested will be determined by comparing the Company's Core ROA and Core ROE to an industry index comprised of \$1.9B to \$10B U.S. exchange-traded banks and thrifts, headquarters in Northeast and Mid-Atlantic excluding Puerto Rico for the Performance Period (January 1, 2022 – December 31, 2024) as set forth in Appendix B (the "Custom Industry Index"). If Custom Industry Index constituents are deregistered or acquired as of the end of the Performance Period and their GAAP financial data is not available for the entire Performance Period, they will be removed for the entire Performance Period and will not be replaced. The performance of each metric will be measured independently. Performance results falling between Threshold, Target, and Stretch will be interpolated.

The number of Performance Units earned and vested for the performance period shall be equal to the product of (a) and (b), where (a) is equal to the Target Number of Performance Units subject to Award on the cover sheet and (b) is performance factor determined based on the table below.

(Target # of Performance Units x 50% x Core ROA performance factor)

+ (Target # of Performance Units x 50% x Core ROE performance factor)

= Total # of Performance Units Earned

Performance Measure	WWt.	Below Threshold	Threshold	Target	Stretch
3-year Average Core ROA – Relative to Custom Index	50%	< 25 <sup>th</sup> percentile	25 <sup>th</sup> percentile	50th percentile	75 <sup>th</sup> percentile and above
3 – year Average Core ROE – Relative to Custom Index	50%	< 25 <sup>th</sup> percentile	25 <sup>th</sup> percentile	50th percentile	75 <sup>th</sup> percentile and above
Performance Factor (% of Target)		0%	50%	100%	150%

Notwithstanding anything to the contrary in this Agreement or this [Exhibit A](#), no Performance Units will vest if threshold performance for both Core ROA and Core ROE are not attained.

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Additionally, in no event may you earn more than the number of shares underlying the Maximum Award of Performance Units as set forth on the cover sheet of this Agreement.

For purposes of this Appendix: "**Core Income**" shall mean net income after taxes and before extraordinary items, less net income attributable to non-controlling interest, gain on the sale of held to maturity and available for sale securities, amortization of intangibles, goodwill and nonrecurring items.

"**Core ROA**" shall mean Core Income as a percent of average assets.

"**Core ROE**" shall mean Core Income return on average equity, excluding non-controlling interests.

Core ROA and Core ROE will be determined after making adjustments to exclude the following: (a) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (b) any reorganization and restructuring programs; and (c) acquisitions or divestitures and related expenses.

"**Relative Core ROA**" and "**Relative Core ROE**" shall mean the percentile performance of the Company's based on the 3-year average Core ROA and 3-year average Core ROE of the Company relative to the 3-year average Core ROA and 3-year average Core ROE for the companies on the Custom Industry Index as determined by the Committee for the Performance Period. The percentile performance of the Company will be calculated using the "PERCENTRANK" function in MS Excel, and including the Company in the list. The results are rounded to the nearest whole percentile. The calculation can be replicated by arranging the 3-year average Core ROA and 3-year average Core ROE from the highest and the lowest for all companies on the Custom Industry Index and the Company. A percentile ranking is calculated for each data point, assuming the 100<sup>th</sup> percentile for the highest data point, the 0<sup>th</sup> percentile for the lowest data point, and the corresponding percentile for every data point with an equal difference in percentile ranking for each data point.

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**EXHIBIT B**  
**CUSTOM INDUSTRY INDEX**

- Exchange-traded Banks and Thrifts
- Assets \$1.9B - \$10B
- Headquarters in Northeast and Mid-Atlantic, excluding PR

As of the grant date, there are 52 companies in the Custom Industry Index

Company	Ticker
First Commonwealth Financial Corporation	FCF
S&T Bancorp, Inc.	STBA
Columbia Financial, Inc.	CLBK
Brookline Bancorp, Inc.	BRKL
ConnectOne Bancorp, Inc.	CNOB
Flushing Financial Corporation	FFIC
Tompkins Financial Corporation	TMP
Amalgamated Financial Corp.	AMAL
Kearny Financial Corp.	KRNY
Univest Financial Corporation	UVSP
The Bancorp, Inc.	TBBK
Metropolitan Bank Holding Corp.	MCB
TrustCo Bank Corp NY	TRST
Peapack-Gladstone Financial Corporation	PGC
Washington Trust Bancorp, Inc.	WASH
Financial Institutions, Inc.	FISI
Republic First Bancorp, Inc.	FRBK
Northfield Bancorp, Inc. (Staten Island, NY)	NFBK
Camden National Corporation	CAC
CNB Financial Corporation	CCNE
Cambridge Bancorp	CATC
Mid Penn Bancorp, Inc.	MPB
HarborOne Bancorp, Inc.	HONE
Enterprise Bancorp, Inc.	EBTC
The First of Long Island Corporation	FLIC
Arrow Financial Corporation	AROW

Hingham Institution for Savings	HIFS
Shore Bancshares, Inc.	SHBI
Peoples Financial Services Corp.	PFIS
BCB Bancorp, Inc.	BCBP
Orrstown Financial Services, Inc.	ORRF
ACNB Corporation	ACNB

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First Bank	FRBA
Western New England Bancorp, Inc.	WNEB
The First Bancorp, Inc.	FNLC
Greene County Bancorp, Inc.	GCBC
Bankwell Financial Group, Inc.	BWFG
Chemung Financial Corporation	CHMG
Fidelity D & D Bancorp, Inc.	FDBC
Codorus Valley Bancorp, Inc.	CVLY
The Community Financial Corporation	TCFC
Citizens & Northern Corporation	CZNC
Orange County Bancorp, Inc.	OBT
Evans Bancorp, Inc.	EVBN
Capital Bancorp, Inc.	CBNK
Norwood Financial Corp.	NWFL
Unity Bancorp, Inc.	UNTY
Parke Bancorp, Inc.	PKBK
PCSB Financial Corporation	PCSB
Pioneer Bancorp, Inc.	PBFS
Blue Foundry Bancorp	BLFY
Penns Woods Bancorp, Inc.	PWOD

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#### EXHIBIT C

#### ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE

The undersigned hereby makes an election pursuant to Section 83(b) of the Internal Revenue Code with respect to the property described below and supplies the following information in accordance with the regulations promulgated thereunder:

1. The name, address, and social security number of the undersigned:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Social Security No.: \_\_\_\_\_

**2. Description of property with respect to which the election is being made:**

shares of common stock, par value \$2.00 per share, of Bar Harbor Bankshares, a Maine corporation, (the "Company").

**3. The date on which the property was transferred is .**

**4. The taxable year to which this election relates is calendar year .**

**5. Nature of restrictions to which the property is subject:**

The shares of common stock are subject to the provisions of a Restricted Stock Agreement between the undersigned and the Company. The shares of stock are subject to forfeiture under the terms of the Agreement.

**6. The fair market value of the property at the time of transfer (determined without regard to any lapse restriction) was \$ per share, for a total of \$.**

**7. The amount paid by the undersigned for the property was \$.**

**8. A copy of this statement has been furnished to the Company.**

Dated: \_\_\_\_\_

\_\_\_\_\_  
**Taxpayer's Signature**

\_\_\_\_\_  
**Taxpayer's Printed Name**

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**PROCEDURES FOR MAKING ELECTION  
UNDER INTERNAL REVENUE CODE SECTION 83(b)**

The following procedures **must** be followed with respect to the attached form for making an election under Internal Revenue Code section 83(b) in order for the election to be effective:<sup>1</sup>

- 1. You must file one copy of the completed election form with the IRS Service Center where you file your federal income tax returns within 30 days after the Grant Date of your Restricted Stock.**
- 2. At the same time you file the election form with the IRS, you must also give a copy of the election form to the Secretary of the Company.**
- 3. You must file another copy of the election form with your federal income tax return (generally, Form 1040) for the taxable year in which the stock is transferred to you.**

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<sup>1</sup>Whether or not to make the election is your decision and may create tax consequences for you. You are advised to consult your tax advisor if you are unsure whether or not to make the election.

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**Exhibit 21.1**

<b>Bar Harbor Bankshares Subsidiaries</b>	
<b>Name</b>	<b>State of Incorporation or Organization</b>
Bar Harbor Bank & Trust	Maine
Cottage Street Corp.	Maine
NHTB Capital Trust II	Connecticut
NHTB Capital Trust III	Connecticut
Charter Holding Corp.	New Hampshire
Bar Harbor Wealth Management	New Hampshire
Charter New England Agency, Inc.	New Hampshire

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**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (No. 333-232149, No. 333-231575 No. 333-206453, and No. 333-161622) 333-206453) on Form S-8 of Bar Harbor Bankshares and Subsidiaries of our reports dated March 14, 2023 March 11, 2024, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of Bar Harbor Bankshares and Subsidiaries, appearing in this Annual Report on Form 10-K of Bar Harbor Bankshares and Subsidiaries for the year ended December 31, 2022 December 31, 2023.

/s/ RSM US LLP

Boston, Massachusetts Hartford, Connecticut

March 14, 2023 11, 2024

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**Exhibit 31.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT  
OF 1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Curtis C. Simard, certify that:

1. I have reviewed this annual report on Form 10-K of Bar Harbor Bankshares (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: **March 14, 2023** **March 11, 2024**

/s/ Curtis C. Simard

Name: Curtis C. Simard  
Title: President and Chief Executive Officer

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**Exhibit 31.2**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER**  
**PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT**  
**OF 1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Josephine Iannelli, certify that:

1. I have reviewed this annual report on Form 10-K of Bar Harbor Bankshares (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

- All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: **March 14, 2023** March 11, 2024

/s/ Josephine Iannelli

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Name: Josephine Iannelli

Title: Executive Vice President and Chief Financial Officer

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**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002 (18 U.S.C. Section 1350)**

In connection with the Annual Report on Form 10-K of Bar Harbor Bankshares (the "Registrant") for the year ended **December 31, 2022** December 31, 2023 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Curtis C. Simard, President and Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: **March 14, 2023** March 11, 2024

/s/ Curtis C. Simard

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Name: Curtis C. Simard

Title: President and Chief Executive Officer

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**Exhibit 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002 (18 U.S.C. Section 1350)**

In connection with the Annual Report on Form 10-K of Bar Harbor Bankshares (the "Registrant") for the year ended **December 31, 2022** December 31, 2023 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Josephine Iannelli, Executive Vice President and Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: **March 14, 2023** March 11, 2024

/s/ Josephine Iannelli

Name: Josephine Iannelli

Title: Executive Vice President and Chief Financial Officer

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**Exhibit 97**

**BAR HARBOR BANKSHARES**

**INCENTIVE-BASED COMPENSATION RECOVERY POLICY**

- 1. Policy Purpose.** The purpose of this Bar Harbor Bankshares (the "Company") Incentive-Based Compensation Recovery Policy (this "Policy") is to enable the Company to recover Erroneously Awarded Compensation in the event that the Company is required to prepare an Accounting Restatement. This Policy is intended to comply with the requirements set forth in Listed Company Manual Section 303A.14 of the corporate governance rules of the New York Stock Exchange (the "Listing Rule") and shall be construed and interpreted in accordance with such intent. Unless otherwise defined in this Policy, capitalized terms shall have the meaning ascribed to such terms in Section 7. This Policy shall become effective on December 1, 2023.
- 2. Policy Administration.** This Policy shall be administered by the Compensation Committee of the Board (the "Committee") unless the Board determines to administer this Policy itself. The Committee has full and final authority to make all determinations under this Policy. All determinations and decisions made by the Committee pursuant to the provisions of this Policy shall be final, conclusive and binding on all persons, including the Company, its affiliates, its shareholders and Executive Officers. Any action or inaction by the Committee with respect to an Executive Officer under this Policy in no way limits the Committee's actions or decisions not to act with respect to any other Executive Officer under this Policy or under any similar policy, agreement or arrangement, nor shall any such action or inaction serve as a waiver of any rights the Company may have against any Executive Officer other than as set forth in this Policy.
- 3. Policy Application.** This Policy applies to all Incentive-Based Compensation received by a person: (a) after beginning service as an Executive Officer; (b) who served as an Executive Officer at any time during the performance period for such Incentive-Based Compensation; (c) while the Company had a class of securities listed on a national securities exchange or a national securities association; and (d) during the three completed fiscal years immediately preceding the Accounting Restatement Date. In addition to such last three completed fiscal years, the immediately preceding clause (d) includes any transition period that results from a change in the Company's fiscal year within or immediately following such three completed fiscal years; provided, however, that a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to twelve months shall be deemed a completed fiscal year. For purposes of this Section 3, Incentive-Based Compensation is deemed received in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period. For the avoidance of doubt, Incentive-Based Compensation that is subject to both a Financial Reporting Measure vesting condition and a service-based vesting condition shall be considered received when the relevant Financial Reporting Measure is achieved, even if the Incentive-Based Compensation continues to be subject to the service-based vesting condition.
- 4. Policy Recovery Requirement.** In the event of an Accounting Restatement, the Company must recover, reasonably promptly, Erroneously Awarded Compensation, in amounts determined pursuant to this Policy. The Company's obligation to recover Erroneously Awarded Compensation is not dependent on if or when the Company files restated financial statements. Recovery under this Policy with respect to an Executive Officer shall not require the finding of any misconduct by such Executive Officer or such Executive Officer being found responsible for the accounting error leading to an Accounting Restatement. In the event of an Accounting Restatement, the Company shall satisfy the Company's obligations under this Policy to recover any amount owed from any applicable Executive Officer by exercising its sole and absolute discretion in how to accomplish such recovery. The Company's recovery obligation pursuant to this Section 4 shall not apply to the extent that the Committee, or in the absence of the Committee, a

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majority of the independent directors serving on the Board, determines that such recovery would be impracticable and:

- a. The direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Company must make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the Stock Exchange; or
- b. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Code.

5. **Policy Prohibition on Indemnification and Insurance Reimbursement.** The Company is prohibited from indemnifying any Executive Officer or former Executive Officer against the loss of Erroneously Awarded Compensation. Further, the Company is prohibited from paying or reimbursing an Executive Officer for purchasing insurance to cover any such loss.

6. **Required Policy-Related Filings.** The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the federal securities laws, including disclosures required by U.S. Securities and Exchange Commission filings.

7. **Definitions.**

- a. "**Accounting Restatement**" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.
- b. "**Accounting Restatement Date**" means the earlier to occur of: (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if the Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; and (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.
- c. "**Board**" means the board of directors of the Company.
- d. "**Code**" means the U.S. Internal Revenue Code of 1986, as amended. Any reference to a section of the Code or regulation thereunder includes such section or regulation, any valid regulation or other official guidance promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing, or superseding such section or regulation.
- e. "**Erroneously Awarded Compensation**" means, in the event of an Accounting Restatement, the amount of Incentive-Based Compensation previously received that exceeds the amount of Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated amounts in such Accounting Restatement, and must be computed without regard to any taxes incurred or paid by the relevant Executive Officer;

provided, however, that for Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement: (i) the amount of Erroneously Awarded Compensation must be based on a reasonable estimate of the effect of the Accounting Restatement on the stock

price or total shareholder return upon which the Incentive-Based Compensation was received; and (ii) the Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to the Stock Exchange.

- f. **"Executive Officer"** means the Company's president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. An executive officer of the Company's parent or subsidiary is deemed an "Executive Officer" if the executive officer performs such policy making functions for the Company. For the avoidance of doubt, "Executive Officer" includes, but is not limited to, any person identified as an executive officer pursuant to Item 401(b) of Regulation S-K under the U.S. Securities Act of 1933, as amended.
- g. **"Financial Reporting Measure"** means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure; provided, however, that a Financial Reporting Measure is not required to be presented within the Company's financial statements or included in a filing with the U.S. Securities and Exchange Commission to qualify as a "Financial Reporting Measure." For purposes of this Policy, "Financial Reporting Measure" includes, but is not limited to, stock price and total shareholder return.
- h. **"Incentive-Based Compensation"** means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.
- i. **"Stock Exchange"** means the national stock exchange on which the Company's common stock is listed.

8. **Acknowledgement.** Each Executive Officer shall sign and return to the Company, within 30 calendar days following the later of (i) the effective date of this Policy first set forth above or (ii) the date the individual becomes an Executive Officer, the Acknowledgement Form attached hereto as Exhibit A, pursuant to which the Executive Officer agrees to be bound by, and to comply with, the terms and conditions of this Policy.

9. **Committee Indemnification.** Any members of the Committee, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company to the fullest extent under applicable law and Company policy with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy.

10. **Severability.** The provisions in this Policy are intended to be applied to the fullest extent of the law. To the extent that any provision of this Policy is found to be unenforceable or invalid under any applicable law, such provision shall be applied to the maximum extent permitted, and shall automatically be deemed

amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.

11. **Amendment; Termination.** The Board may amend this Policy from time to time in its sole and absolute discretion and shall amend this Policy as it deems necessary to reflect the Listing Rule. The Board may terminate this Policy at any time.

12. **Other Recovery Obligations; General Rights.** To the extent that the application of this Policy would provide for recovery of Incentive-Based Compensation that the Company recovers pursuant to Section 304 of the Sarbanes-Oxley Act or other recovery obligations, the amount the relevant Executive Officer has already reimbursed the Company will be credited to the required recovery under this Policy. This Policy shall not limit the rights of the Company to take any other actions or pursue other remedies that the Company may deem appropriate under the circumstances and under applicable law. To the maximum extent permitted under the Listing Rule, this Policy shall be administered in compliance with (or pursuant to an exemption from the application of) Section 409A of the Code.

13. **Successors.** This Policy is binding and enforceable against all Executive Officers and their beneficiaries, heirs, executors, administrators or other legal representatives.

14. **Governing Law; Venue.** This Policy and all rights and obligations hereunder are governed by and construed in accordance with the internal laws of the State of Delaware, excluding any choice of law rules or principles that may direct the application of the laws of another jurisdiction. All actions arising out of or relating to this Policy shall be heard and determined exclusively in the Court of Chancery of the State of Delaware or, if such court declines to exercise jurisdiction or if subject matter jurisdiction over the matter that is the subject of any such legal action or proceeding is vested exclusively in the U.S. federal courts, the U.S. District Court for the District of Delaware.

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**EXHIBIT A**

**BAR HARBOR BANKSHARES  
INCENTIVE-BASED COMPENSATION RECOVERY POLICY**

**ACKNOWLEDGEMENT FORM**

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Bar Harbor Bankshares (the "Company") Incentive-Based Compensation Recovery Policy (the "Policy").

By signing this Acknowledgement Form, the undersigned acknowledges and agrees that the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned's employment with the Company. Further, by signing below, the undersigned agrees to abide by the terms of the Policy, including, without limitation, by returning any Erroneously Awarded Compensation (as defined in the Policy) to the Company to the extent required by, and in a manner consistent with, the Policy. Further, by signing below, the undersigned agrees that the terms of the Policy shall govern in the event of any inconsistency between the Policy and the terms of any employment agreement to which the undersigned is a party, or the terms of any compensation plan, program or agreement under which any compensation has been granted, awarded, earned or paid.

**EXECUTIVE OFFICER**

Signature

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Print Name

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Date

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